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STANDING UP TO THE FUTURE: THE MARITIMES IN THE 1990'S

(A report to the Council of Maritime Premiers)

"The argument of this report is that the Maritime Premiers can no longer take the sources of continued economic growth for granted... Competitiveness means competitive governments as well as competitive private sectors... It has everything to do with mobilizing scarce resources - talent, brains, thinking, networks, information, entrepreneurial managers - into coordinated actions to achieve realistic objectives." (p.42)

KEY FACTS

- Author: Dr. Charles McMillan, of Prince Edward Island, Professor of International Business at York University and an advisor to governments, international agencies and corporations.

- Report commissioned: December 1988, by the Council of Maritime Premiers.

- Purpose:
  1. To overview the major issues facing the Maritimes in the 1990's;
  2. to develop a plan of action; and
  3. to report on the operation of Council.

SUMMARY OF MAJOR CONCLUSIONS

On the Maritimes in the 1990's:

Dr. McMillan concludes that, in the 1990's, Maritimers will face many challenges.

- "One must bear in mind that the Maritime Provinces will face a decade of severe pressures on the federal Treasury to restrict spending at existing or reduced levels for most of the 1990's." (p.3)

- "The brutal fact is, by standards of international comparison, the Maritimes are in a vicious circle of dependence and inward-looking attitudes." (p.17)

- "Macroeconomic policies at the federal level show no propensity to narrowing the income/employment gaps between the national average and the regional level. Federal spending or macro growth in Central Canada will not by itself produce economic growth and lower levels of unemployment in the Maritimes." (p.24)

- "The Maritimes have an excellent network of universities and community colleges, but institutional cooperation on research remains weak or non-existent." (p.27)

On the Action Plan:

Dr. McMillan observes that the economic and social challenges facing the Maritimes call for a new spirit of boldness and outward looking leadership. A competitive Maritime Canada should set as its goal becoming a "have" region by the year 2000, according to McMillan. He calls for three specific actions:

1. removal of all interprovincial trade barriers;
2. creation of a mechanism to pool savings into a vehicle to help local economic development; and
3. A trade promotion strategy to increase the level of exports from the Maritime region by 50% in 5 years.

- "The new global environment dictates that governments and public institutions, no less than the private sector, must be pro-active, flexible and competitive." (p.29)

- "The issues already identified in this report which are of vital importance to the Maritimes - education and skills training, research and development, interprovincial trade barriers and financial resources - all form an interlocking set of reinforcing variables." (p.29)

- "A vigorous, cooperative, pro-active strategy must be seen as a tool of the 1990's, based on a confident view of Maritime talent, a recognition that international forces and influences must guide domestic initiatives and that entrepreneurship and technology are the new tools of wealth creation." p. 17

- "A bold vision of the Maritime Premiers cannot happen by executive fiat... Any bold vision to develop the Maritime region will not take root by bureaucratic plans, executive orders, legislative initiatives or political action on their own...Citizens must be involved." (p.41)

On the Council:

Dr. McMillan calls for the strategic revitalization of the Council. He recommends that Council focus on fewer, more strategic issues. McMillan also recommends some structural change, including the creation of a blue-ribbon Maritime Premiers' Advisory Board.

- "Maritime Union is a non-starter... Maritime cooperation can only build on this premise." (p. 16)

- "The Council of Maritime Premiers has served the provinces of New Brunswick, Nova Scotia and Prince Edward Island well - very well indeed." (p.1)

- "Maritime cooperation must be a creature of political leadership... The Council is a creature of political will. Its success depends on political vision. Rarely in recent decades has that need for vision become so important." (p.3)

STANDING UP TO THE FUTURE: THE MARITIMES IN THE 1990's or POUR FAIRE FACE À L'AVENIR: LES MARITIMES DANS LES ANNEES '90 is available by contacting the Council.

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POUR FAIRE FACE À L'AVENIR

Les Maritimes dans les années 90

(Un rapport au Conseil des premiers ministres des Maritimes)

"L'auteur du présent rapport soutient que les premiers ministres des Maritimes ne peuvent plus tenir pour acquises les sources de croissance économique constante... La capacité de faire face à la concurrence ne doit pas être l'apanage du secteur privé... Cette position concerne plutôt au plus haut point la mobilisation des ressources - talents, intelligence, connaissances, réseaux, données, gestionnaires d'entreprises - dans le cadre d'actions coordonnées qui visent à atteindre des objectifs réalistes." (p. 47)

FAITS SAILLANTS

- L'auteur : M. Charles McMillan, de l'Île-du-Prince-Édouard, professeur de commerce international à l'université York. M. McMillan agit comme conseiller auprès de divers gouvernements, organismes internationaux et entreprises.

- Rapport commandé : décembre 1988 par le Conseil des Premiers ministres des Maritimes.

- Objectifs :
  1. Donner un aperçu des principaux problèmes auxquels les Maritimes seront confrontées dans les années 90.
  2. Élaborer un plan d'action.
  3. Présenter un rapport sur les activités du Conseil des premiers ministres des Maritimes.

SOMMAIRE DES PRINCIPALES CONCLUSIONS

Les Maritimes dans les années 90

La conclusion de M. McMillan : dans les années 90, les Maritimes auront un grand nombre de défis à relever.

- "Il faut signaler que les Maritimes abordent une décennie au cours de laquelle elles devront la plupart du temps subir la pression du Trésor fédéral en vue de restreindre ou de comprimer les dépenses." (p.4)

- "En fait, selon les normes internationales, les citoyens des Maritimes se trouvent dans un cercle vicieux de dépendance et de repli sur eux-mêmes." (p. 21)

- "Les politiques macroéconomiques du fédéral ne semblent pas être orientées de façon à combler les écarts entre la moyenne nationale et les niveaux régionaux en matière de revenus et d'emploi. Les dépenses fédérales ou la macrocroissance au centre du pays n'entraineront pas par elles-mêmes une croissance économique et une diminution du taux de chômage dans les Maritimes." (p. 28)

- "Les Maritimes disposent d'un excellent réseau d'universités et de collèges communautaires, mais la collaboration entre les établissements en matière de recherche est faible ou inexistante." (p. 32)

Le plan d'action

M. McMillan fait remarquer que, pour relever les défis économiques et sociaux, les Maritimes devront faire preuve d'audace, d'initiative et d'ouverture. Selon lui, les Maritimes devraient se fixer comme objectif de devenir l'une des régions "prospères" d'ici l'an 2000. À cet effet, il recommande trois mesures précises :

1. la suppression de toutes les barrières commerciales interprovinciales;
2. la création d'un fonds commun d'épargne qui servirait d'instrument de développement économique régional; et
3. l'adoption d'une stratégie de promotion commerciale en vue d'augmenter de 50 p. 100 le niveau des exportations des Maritimes d'ici cinq ans.

- "Le nouvel environnement global oblige les gouvernements et les institutions publiques à être proactifs, souples et concurrentiels au même titre que le secteur privé." (p. 33)

- "Les questions déjà identifiées dans le présent rapport qui sont d'importance vitale pour les Maritimes, à savoir celles de l'éducation et de la formation professionnelle, de la recherche et du développement, des barrières au commerce interprovincial et des ressources financières, composent un ensemble de variables interdépendantes." (p. 33)

- "Une stratégie vigoureuse, coopérative et proactive doit être perçue comme l'instrument des années 90 et elle doit se fonder sur la confiance dans le talent des gens de la région et sur la reconnaissance que les forces et les influences internationales doivent orienter les projets régionaux et que l'esprit d'entreprise et la technologie sont les nouveaux leviers de la prospérité." (p. 20)

- "L'adoption par les premiers ministres d'une vision audacieuse ne peut être imposée par décret... Toute vision audacieuse du développement des Maritimes ne s'enracinera pas par le seul jeu de plans des bureaucrates, d'ordonnances exécutives, d'initiatives législatives ou de mesures politiques... Il faut obtenir la participation des citoyens. (p. 46)

Le Conseil

M. McMillan recommande la revitalisation des stratégies du Conseil. Selon lui, le Conseil doit concentrer ses efforts sur les problèmes les plus importants. En outre, il préconise certains changements dans la structure; notamment, la création d'une commission consultative des premiers ministres des Maritimes.

- "L'union des Maritimes est hors de question... La coopération entre les provinces maritimes ne peut que se fonder sur cette prémisse." (p. 20)

- "Le Conseil des premiers ministres des Maritimes a bien, sinon très bien, servi les intérêts du Nouveau-Brunswick, de la Nouvelle-Écosse et de l'Île-du-Prince-Édouard. (p. 1)

- "La coopération des provinces maritimes doit venir du leadership politique... Le Conseil procède d'une volonté politique. Ses réussites sont tributaires d'une vision politique. Au cours des dernières décennies, ce besoin de vision a rarement été ressenti de façon aussi pressante." (p. 3)

POUR FAIRE FACE À L'AVENIR: LES MARITIMES DANS LES ANNÉES 90 OU STANDING UP TO THE FUTURE: THE MARITIMES IN THE 1990'S est disponible en contactant le Conseil.

Standing Up to the Future
The Maritimes in the 1990's

the council of
maritime premiers

Standing Up to the Future:

The Maritimes in the 1990's

A Report to

The Council of Maritime Premiers

by

Dr. Charles J. McMillan

December 1989

91-00695/

The recommendations contained in this report do not necessarily reflect the position of the Council of Maritime Premiers.

Version Française

On peut obtenir la version française de ce rapport en écrivant à l'adresse suivante:

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Task Force on Council of Maritime Premiers

December 18, 1989

The Honourable John Buchanan
Province of Nova Scotia
Halifax, Nova Scotia

The Honourable Joseph Ghiz
Province of Prince Edward Island
Charlottetown, P.E.I.

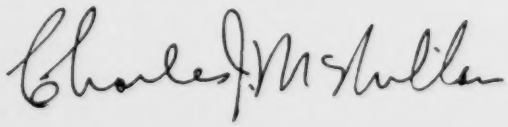
The Honourable Frank McKenna
Province of New Brunswick
Fredericton, New Brunswick

Gentlemen:

Pursuant to your request, I have undertaken this study and review of the Council of Maritime Premiers, with a view to the economic challenges facing the Maritimes in the Year 2000 and organizational changes to make the Council a more effective instrument for Maritime cooperation.

The economic and social challenges facing the Maritimes are many, not only in terms of the general conditions facing the region, but also the international context and technological change. The organizational changes recommended for the Council and the new policy mandate require new attitudes and new approaches, in some cases quite dramatic in scope. The Council of Maritime Premiers and cooperative action by the three provincial governments have a major role to play in meeting these challenges, as does a new spirit of boldness and outward-looking leadership, not only on the part of government, but by individual citizens as well.

As a Maritimer, with a deep personal commitment to the region, I know the Council can plan a new and positive role in the future.



Respectfully submitted
Charles J. McMillan

Foreward

In December 1988, the Council of Maritime Premiers commissioned Dr. Charles McMillan to report on:

- The Council's role, operations and operating capabilities now and in the future
- The key issues facing the provinces of New Brunswick, Nova Scotia and Prince Edward Island in the 1990's and a plan of action for the Council on those issues.

Dr. McMillan interviewed over 60 people, including present and former Premiers, cabinet ministers and deputy ministers as well as private sector executives and academics. He had three private meetings with the Maritime Premiers together. He studied the history of cooperation among the Maritime governments, plus documents and reports on the environment and public policy issues facing the three governments this decade.

When his work was quite advanced, Dr. McMillan was asked to consider the idea of a more strategic relationship between the Maritime governments and the Government of Newfoundland and Labrador. His views are in chapter VI.

Dr. McMillan, a native of Prince Edward Island, is a graduate of St. Dunstan's University (U.P.E.I.) as well as the University of Alberta and the University of Bradford Management Center in England. Presently Professor of International Business at York University, he has extensive experience in public policy, international business, and economic competitiveness. He serves as consultant and advisor to governments, international agencies and corporations. He is a director of several companies and organizations, including Yamaichi International (Canada) Limited, Prince Edward International, The Asia Pacific Foundation and the National Ballet School of Canada. He is also a member of Nova Scotia's Council of Applied Science and Technology.

This document, *Standing Up to the Future: The Maritimes in the 1990's*, is Dr. McMillan's report to the Council of Maritime Premiers.

Emery M. Fanjoy
Secretary to Council

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I Introduction

"In summary, your Task Force has concluded that positive steps can and should be taken to build upon past benefits realized from Maritime Cooperation."
- Review Task Force, Council of Maritime Premiers, 1987

The Council of Maritime Premiers has served the provinces of New Brunswick, Nova Scotia and Prince Edward Island well — very well indeed. Like the proverbial expression, if the Council had not been in existence, it would have had to be invented.

This is the principal finding of this commissioned report. Maritime cooperation and coordination are a fact of life. Institutionally, the Council serves the provinces' need for interprovincial coordination; policy-wise, the Council provides important advice on a range of operational issues vital to the Maritimes. The Council has almost a twenty-year history of operation serving the Premiers, their respective governments and their populations with an abundance of timely and relevant policy, programs and information. How can the Council best serve the Maritimes in the decade ahead? Is the present approach adequate to the challenges ahead?

This study addresses the problems, opportunities and new environment for the Council of Maritime Premiers in the context of the new environment facing the region over the next decade. The Council, first established in 1971, is a creature of three provincial legislatures and the coordinating body among the provinces of New Brunswick, Nova Scotia and P.E.I. As the Council approaches twenty years of cooperation among the three Maritime Governments, it is useful to recall the perceived lack of cooperation within the Maritimes over the past 100 hundred years since Confederation. Indeed, unknown to most Canadians, it was the lack of an agreeable framework for cooperation, often expressed as Maritime Union, that posed the great opportunity for Sir John A. MacDonald in 1864 to turn the Charlottetown Conference into a truly momentous occasion for the creation of Canada from the disparate British Colonies of North America rather than a separate "Maritime Canada". Yet the reality is that the Maritime Provinces can be held up as a model of truly cooperative efforts on a wide range of policy issues — health, education, transportation — but also major institutional initiatives such as the new Veterinary School in P.E.I.

To many Canadians, the Maritime Provinces constitute a region of federal largesse, over-government and inadequate understanding of global trends to large-scale competitiveness and technological prowess. The outsider's view is reinforced by numerous studies, expert opinions and often Maritime laments of maltreatment, underfunding and inadequate institutional arrangements which serve, alone and in combination, to perpetuate the region as the poor boy of Confederation. In short, the image nonetheless remains: the Maritimes are a fractious, parochial economic backwater in Canada.

Old attitudes die hard. Old institutions live on. Mythologies become perpetuated. In fact, Maritime cooperation is a fragile instrument. Maritime policy coordination, while real in a number of basic areas, remains a distant goal on the most important issue — industrial development. Parochialism, a short term horizon, lack of vision, institutional inadequacies and federal/provincial squabbling — all these factors and many others have played a role in reducing the potential for a visionary plan of action for the Maritime Provinces. Dependence on Ottawa, parochial rivalries and lack of coordinated leadership — these are the problems challenging the Maritime region in a tough new global environment. This new challenge is historic, nothing less than the long-term diversification of the Atlantic economy going into the next century.

The ebb and flow of cooperation and coordination among the Maritime Provinces relate to a number of factors, including provincial priorities, not the least of which is reelection. During the Council's twenty years of existence from 1970 - 1989, in only nine years has there been no provincial election (1971, 1972, 1973, 1975, 1976, 1977, 1980, 1983 and 1985). Strikingly, four of these nine years were in the first five years of the Council's mandate. Equally significant is the fact that in this twenty year span, only in seven years, was the intrusion of electoral politics free from elections at either the provincial or the federal level.

Put succinctly, and operating on the premise that despite the best of good will, it may be stated that partisan political concerns will dominate over non-partisan Maritime cooperation. In fact, historically, only in eight of the twenty years of the Council's existence has the Maritime agenda not been sidetracked by electoral politics. Even more cogently, only three times in the last decade has an election not been held in one or more of the Maritime Provinces (in 1980, 1983 and 1985).

What is significant, based on this data, is that for the first time since the creation of the Council, three critical variables coincide to provide a period of continuity and to open a new window of bold initiatives:

1. No Premier up for reelection;
2. No turnover of leadership; and
3. No federal election.

Why are these issues important? They are important because an overwhelming response to interviews conducted for this study is the need for collective political leadership, a need to turn the economic and wealth-creating challenges in Atlantic Canada into bold new opportunities, new approaches and new responses. Maritimers are fully aware of the new economic environment of the 1990s. The population understands that not only the Maritimes, but all of Canada, will not be the same in the next decade as in the past. What are the factors they see? Some obvious, but compelling, issues are:

1. The U.S.-Canada Free Trade Agreement and the need for dramatically new pro-active responses by big firms and small firms alike and by government initiatives to raise the profile of opportunities to be seized;

2. New technologies, especially information technology, at once posing new challenges to learn and adopt at all age groups, but also changing at a stroke the geographical barriers for locating business in Atlantic Canada, based on these new technologies;

3. New growth markets in Europe, the Middle East, the Caribbean and South America for traditional Maritime sectors — agriculture, fisheries, pulp and paper, cash crops and specialized small business of all descriptions — as well as particular markets of enormous wealth — Japan and the Pacific Rim to cite the most obvious examples;

4. The new competition, vertically integrated firms, overseas investments, tied subcontractor relations, niche markets, all suggesting aggressive outward management strategies, best represented by such specific Maritime companies as the Irving interests in New Brunswick (in pulp and paper, shipbuilding, oil refineries, distribution, and lately in food processing), the McCains and National Sea Products, Amherst Aerospace, and Diagnostic Chemicals in P.E.I.;

5. Life-cycle learning, that is the simple capacity to learn how to learn, recognizing that the shelf life for knowledge is declining rapidly, whether in hospital treatment or in computers, fish processing or in bank services; technology is changing the obsolescence factor to an unbelievable degree, such that continuous learning, training and retraining are as important as high school and university education; and

6. Changing demographics, not only of a rising level of the mean age, but the mix of different age groups and the dependency ratio to working population, with associated demands on the health care system, new budget pressures and also new opportunities for medical service technology and associated industrial opportunities.

7. The international imperative — Maritimers, like Canadians generally, are recognizing the new rule of the global economy — such that international conditions should drive and shape the domestic agenda, rather than the reverse. The symptoms are evident in a host of ways: for example Japanese tourists in P.E.I., Dutch competitors to Maritime potatoes, New England and overseas markets for fish, French technology in tire production and Scandinavian engineering in products as diverse as shipbuilding and paper manufacturing.

Neither Canadian nor Maritime firms can be isolated from these trends. Some firms are willing and able to meet these new challenges. Many have not seized the new opportunities nor responded to the changed environment. Nor is the window of opportunity likely to stay open for long, particularly as a recessionary environment may be the catalyst for American firms to move aggressively into Canada, including the Maritimes.

What do these and other trends mean for the Maritime Provinces? What do they mean for the Council of Maritime Premiers? What do they mean for wealth creating prospects for the entire region?

In simple language, it means that the status quo is not an option. It means that the rest of Canada has its own structural problems with which to deal. It means that continued acceptance of the current, uncoordinated way of conducting the public's business in the Maritimes, far from closing the income gap, will lead to a further gap between the Maritimes and the rest of Canada. More to the point, the real gap will be expressed in missed opportunities — in a failed capacity of the Maritime Provinces to take the once only bold leaps now that the window for diversification and change has opened up in the next decade.

The Council of Maritime Premiers has been in operation for almost two decades. It has been an agency for coordination on a number of issues, and it has served as a catalyst for particular provincial initiatives. But historically, and increasingly in the present, the Council has had very limited policy success across a range of key strategic policy fields: economic development, social policy, education and culture. To many Maritimers, in the political arena, in the public service, in academe and elsewhere, there has been an implicit, if not explicit, view that the only strategy to increase economic activity in the Maritime Provinces is through the public sector directly and government support for private sector industrial projects. Two decades and more of actual experience has shown that this is an ill-fated approach to industrial development. Income gaps have not closed. Unemployment gaps have not lessened. Private sector industrial output is still below national averages. More specifically, the Maritimes are still heavily dependent on federal transfer payments and a range of specific federal programs to maintain income support, the most obvious being the unemployment insurance program. Is the Council a part of the problem or is it to be a part of the solution? Clearly this report sees it in the latter role, but major changes are required in attitudes, leadership, vision and mode of operation.

Two operating assumptions have guided this report. They should be spelled out explicitly. First, Maritime Union is not a viable option for the region. More explicitly, the Council should not be viewed as a second best alternative to Maritime Union or political integration by the back door. Second, Maritime cooperation must be a creature of political leadership. It has nothing to do per se with ideology, bureaucratic inertia or organizational inadequacies. The Council is a creature of political will. Its success depends on political vision. Rarely in recent decades has that need for vision become so important.

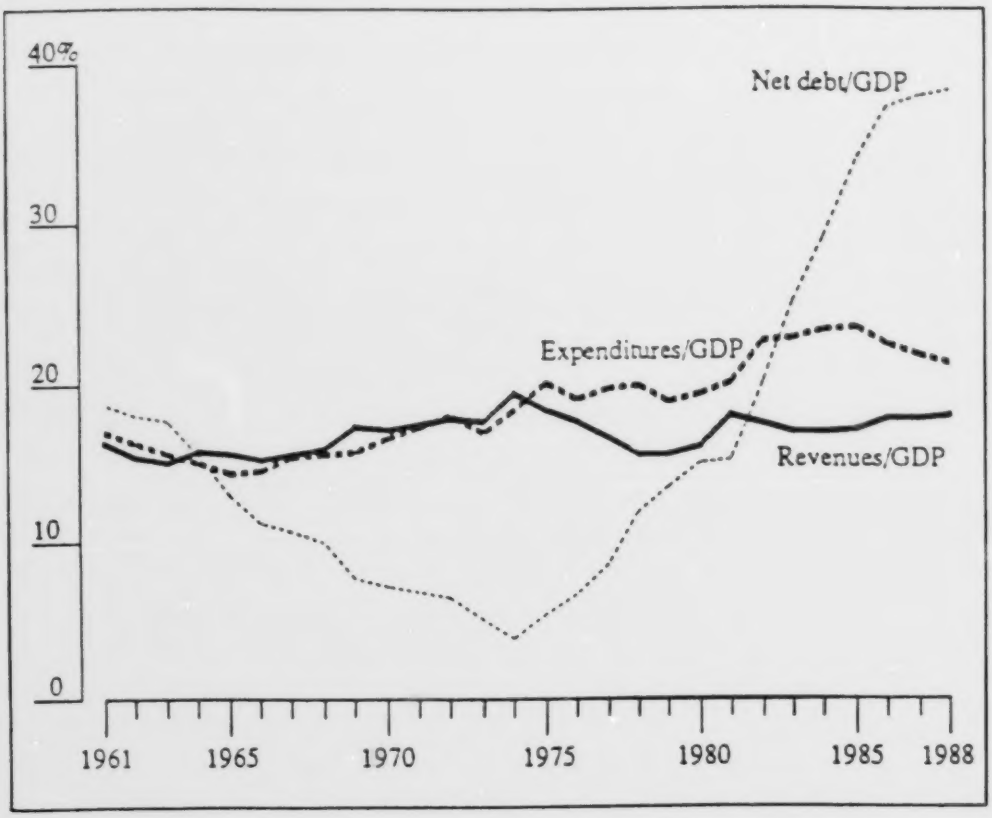
One must bear in mind that the Maritime Provinces will face a decade of severe pressures on the federal Treasury to restrict spending at existing or reduced levels for most of the 1990s. The federal government debt to GDP ratio continues to increase despite some deficit reduction measures, tax reform and a robust economy during the past five years. If anything, as borrowing rates continue to exceed economic growth and as expenditures increasingly go to consumption rather than public infrastructure, the federal capacity to help Atlantic Canada declines as federal interest payments crowd out new spending initiatives. Moreover, there is not overwhelming evidence for a strong federal desire to make Atlantic Canada a focus of policy priorities. Homemade solutions in the Maritimes are the only realistic option. The status quo leaves the Maritimes falling further behind. The fiscal squeeze in Ottawa rules out the federal option. Government-led growth in the Maritimes has simply not worked.

These are the real strategic issues facing the Maritime Provinces over the next decade. The Council of Maritime Premiers must be a vehicle to deal with the solutions and new approaches. This study strongly recommends an invigorated Council, one more focussed on industrial development for the region based on leadership stemming directly from the Premiers and a revitalized economic agenda.

Exhibit 1

REVENUES, EXPENDITURES AND NET DEBT: CANADA 1961 - 1988

Revenues, Expenditures, and Net Debt of the Federal Government as a Proportion of GDP, Canada, 1961-88[1]



[1] The underlying data on government revenues and expenditures record annual flows. The data pertaining to net debt record the cumulative stock of debt as a consequence of deficits incurred over time.

Source Estimates by the *Economic Council of Canada*, based on data from *Statistics Canada*.

II The Council of Maritime Premiers - Organizational Assessment

"The four Atlantic Provinces have a combined public-sector debt of $20 billion, unemployment levels chronically higher than the national average and a growing sense that Ottawa has abandoned them."
- Canadian Business, October 1989

In the ebb and flow of the Council's history, there has been an uneasy tension between the need to deal with big ticket issues, which inevitably raise the specter of one province gaining more than another, and small issues, which may trivialize the Premiers' collective agenda. The creative tension within the Council and its operating units, such as the Steering Committee or the Secretariat, center around the twin pressures of provincial representations protecting local turf, on the one hand, and maintaining momentum for a collective Maritime voice on the other. In reality, the only offsetting dynamic favouring real collective policy coordination and specific initiatives comes from two factors:

1. The leadership of the Premiers acting in concert; and

2. Specific agenda items which are low on "zero-sum" characteristics, i.e. no province is seen as a loser in the policy process.

Unlike many agencies of governments, the Council suffers from the absence of a profile with the public. Most Maritimers know almost nothing of the day-to-day work of the Council. Few citizens fully recognize how much coordination actually takes place across the Maritimes. This is as true of the Council itself and its agencies. It is also true that few citizens recognize the degree of cooperation in a variety of other areas, including in education and in private sector activity. Moreover, in the absence of big ticket initiatives, the public rarely sees the output of the Council's deliberations or planning, often taking for granted the Council's work or prescribing to the provincial government the credit for collective initiatives from the Council.

Notwithstanding these points, the Council has been losing ground on dealing with major strategic items. The Council's agenda is increasingly dominated by operational issues. These trends are depicted in the chart on the next page.

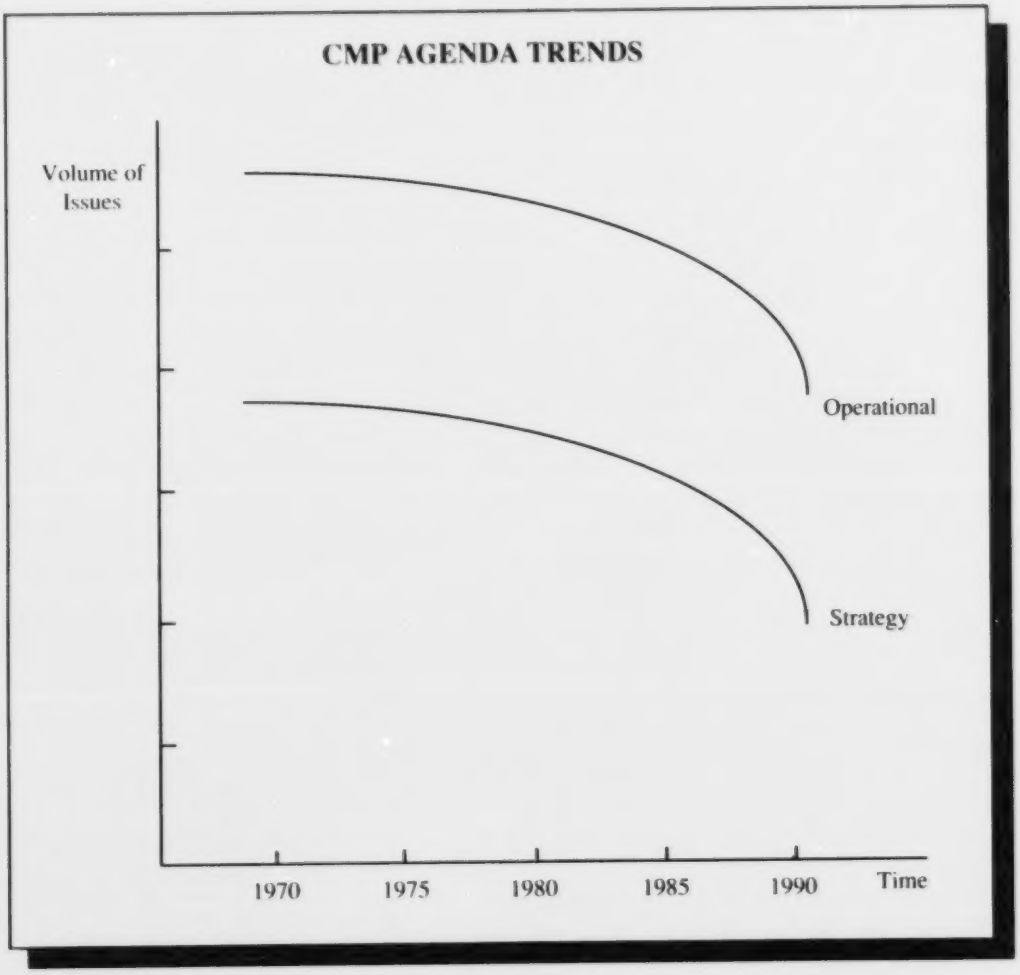
As far back as the Deutsch Report and the origins of the Council, there was a clear if ambiguously stated tension between two basic objectives:

1. Autonomy for each Maritime Province; and

2. Policy coordination for the region.

The arguments for coordination hold today as they did 20 years ago — scale economies, avoidance of duplication, global competition, federal policies towards the Atlantic region, the Maritimes versus other "big" provinces. The arguments for autonomy date from the very history of Canada, the Confederation debates, the almost mystical hold that provincial identities have on Maritimers, expressed in song, poetry and folklore as well as in public policy and political pressures.

Exhibit 2



Throughout the region, the Council has perhaps suffered from the complex that it was the bastard child of Maritime Unionists, those who aspired to a unitary vision of government in the Maritimes. Cursory examination of attitudes and government structures, both in the Maritimes and in large jurisdictions like Ontario and Quebec, illustrates quite readily that such a unitary vision is totally unrealistic.

Ontario, for instance, has an exceedingly large and complicated government structure. It encompasses the well-known legislative system at Queen's Park and several other levels of government, from a system of regional governments in the province to quasi-federalist structures at the municipal level, for example in Toronto. Such overlapping and interdependent decision-making bodies are not a reflection of operational inefficiencies, as some would argue, but merely a reflection of the modern complexity of government, the plurality of citizen groups relating to particular policy issues and the ambiguity and dynamics of the policy questions themselves.

Maritimers have no apologies to make for their system of government nor the much misunderstood "over governance" issue. Simplistic comparisons with other provinces reveal as much as they explain. One can

mention, for instance, the absence of a large private sector or the presence of major foreign corporations in the Maritimes to single out two major differences with Ontario, for example. Maritimers can rejoice at the close proximity between their governments and the people. This should be a source of pride and confidence, rather than a sense of apology and defensiveness.

Bear in mind that the legislative mandate of the Council, while establishing lofty goals of policy coordination, unity of purpose and joint action, is fundamentally process oriented. This feature of the Council is fundamental to its structure, budget, work priorities and modus operandi. It is a feature which seriously undermines its capacity to serve the Maritime region pro-actively on major initiatives, to reach out for bold objectives and to work towards measurable, definable targets of achievement.

Any assessment of the Council of Maritime Premiers must take this process character of the organization's mandate into account. Nor should the Council's mandate be assessed in isolation from other organizations which serve the region, such as the Atlantic Canada Opportunities Agency, or its predecessor departments such as DRIE and DREE. The overwhelming predisposition of both federal and provincial departments is to avoid specific targets and definable measures of performance — to rely, in short, on process dimensions which delimit any potential to achieve results-oriented programs. Multiple jurisdictions partly explain this approach, but so too do attitudes and management styles which eschew results-oriented goals.

Increasingly, however, the environment for governance and government structures is changing. The priorities, the resources, the strategic thinking, the time allocation of the Premiers and the Cabinets — these must reflect the new priorities and realities facing the Maritime Provinces and their wealth-generating capacities.

The issue for the future of the Council of Maritime Premiers is not regional coordination versus provincial autonomy, as historically stressed, but strategic coordination of policy versus program delivery, with the provincial governments working together being the vehicle for the latter. The Council should be the vehicle for the former; the provincial governments the vehicle for the latter.

Under the parliamentary system of government, as practised by all three Maritime Provinces, as well as throughout Canada, basic conventions are well established concerning the government machinery, including the role of the Premier, the relationship between the Ministry and the bureaucracy, the role of the executive arm of government and the legislature at large and the rules of stewardship and its transition at election time. These are hard won rules and covenants of the democratic process.

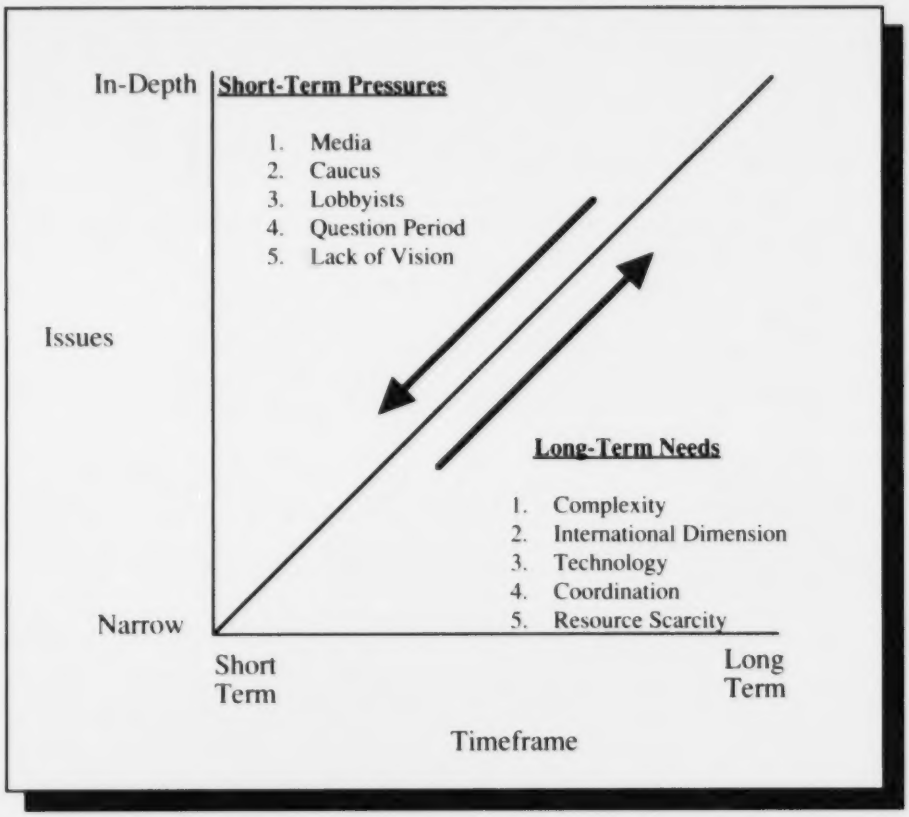
In reality, however, any objective assessment of governments in the Maritimes, and to an alarming extent in Canada at large, is the increased emphasis, indeed, obsession with short-term results. The pressures for short-term perspectives flow not only from the obvious incentives for expediency but from the time pressures placed on governments for quick results and the program emphasis within the budget process. Yet the paradox is that companies and governments which can take the long view equally produce better real economic performance and wealth creation.

A thorough review of the Council's operations and agenda for meetings has revealed a steady trend towards policy items of an operational type dominating Council time, rather than larger strategic issues. The central players in the Council's operations are not the officials, nor the line Ministers in each of the provinces. They are the Premiers. Yet a review of the Council's operations, especially over the past three years, reveals a decided emphasis on important but operational issues, and a clear lack of focus on the major strategic concerns facing the region. The Council, like most governments, deals with narrowly-defined issues of a short-term nature — in short, operational, fire-fighting issues. In recent years, meetings are too often held to meet the legislated requirements of four meetings per year, rather than to advance a strategic agenda for the region.

Council operations have not been isolated from scrutiny, either by the Council itself, by various committee reports, such as the *Council of Maritime Premiers Review Task Force* (March 30, 1987), nor by academics, political groups or politicians. Part of the problem with these studies is that they have focussed on precisely that — the operations of the Council. For instance, the Task Force referred to above had as its purpose:

> *To develop a strategic plan for the operations of the Council of Maritime Premiers within the current environment of financial constraint.*

Exhibit 3



It is instructive to note, and indeed emphasize, the continued and explicit support for the need for interprovincial cooperation in the Maritimes. The key principles guiding the framework for effective Maritime cooperation, and indeed for effective operational success were identified as follows under the headings:

- **Benefits:** Maritime cooperation is highly desirable in that it has been and can continue to be of significant benefit. Maritime cooperation should be pursued when the cooperative effort will yield benefits higher than if each province pursued its own solution. Cooperation should be undertaken if all or some of the partners gain and no partner loses;

- **Ownership:** A key to success in any cooperative venture is that all partners share ownership. Both in spirit and in structure, all Maritime ventures must recognize this essential factor;

- **Policy direction:** Both the organization and reporting relationships of Maritime bodies must be capable of receiving and acting upon strategic policy direction from each of its owner provinces. Also, each province must have both the structures and processes in place to generate and relate policy to the regional body;

- **Accountability:** In implementing regional programs for collective benefit, steps must be taken to ensure accountability through legislated responsibility centres is not compromised;

- **Flexibility:** Care must be taken to choose the appropriate implementation vehicle(s) that will afford maximum flexibility. Conversely, the inability to contract-out and make use of other flexible techniques often leads to rigid staffing patterns and limited goal achievement; and

- **Precise Mandate:** Every program should begin with a foundation of precise objectives and built-in reviews of both objectives and results, such as sunset review clauses.

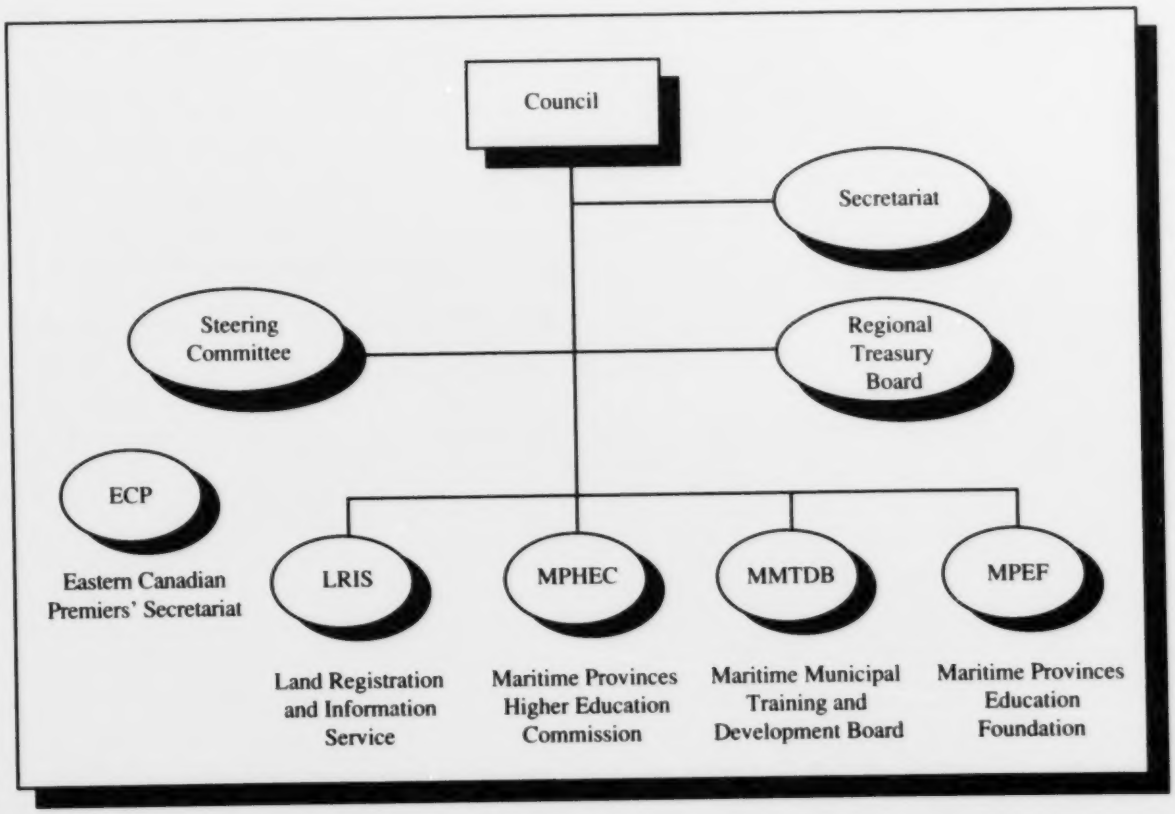
These principles really boil down to the following features:

- Benefits accrue to the region when there is a non-zero sum feature to program initiatives;
- Initiatives pursued need to be regional in scope yet sufficiently flexible to meet provincial circumstances; and
- Programs must be developed around precise objectives, provincial accountability processes and sunset reviews.

These principles are as important today as when they were written in 1987. They have guided the organizational changes set out in the current report.

The Existing Organization

Exhibit 4



In simplified form, the Council's structure is shown in the exhibit above. The Council's Secretariat serves as a coordinating body for policy items requiring joint effort across the three provinces. The Council's mandate seems straightforward, as set out in the legislation passed by the three Legislatures in 1972:

- To promote unity of purpose among their respective Governments;
- To ensure maximum coordination of the activities of the three Governments; and
- To establish the framework for joint action and undertakings.

Each of the Council's agencies has undergone periodic review and assessment, and each has had the advantage of outside Boards of Directors, including direct appointments by provincial governments. Funding is provided through the Council from each government. Total budget revenues for 1988-1989 were $14,608,900, producing a net operating surplus of $172,400. The actual cost of the Council Secretariat was only $1.2 million, or about 70 cents per capita of each citizen in the Maritimes.

In addition to the Council's main agencies, there are about eight intergovernmental agencies linked in a variety of forms to the provincial departments, including the following:

- Atlantic Lottery Corporation
- Atlantic Provinces Special Education Authority
- Atlantic Provinces Transportation Commission
- Atlantic Research Center for Mental Retardation

Another form of cooperation is a set of some fourteen regional committees which share information, which do not have permanent staff, but whose mandates and actual work vary in importance or salience. Some examples:

- Atlantic Canada Tourism Program
- Committee of Atlantic Environment Ministers
- Coordinating Committee of Maritime Electrical Utilities
- Maritime Provinces Transportation Committee

Even a cursory perusal of the actual record of joint consultation and coordination among the Maritime Provinces shows an impressive array of organizations and people. Much of this work is unrecognized by the public and much of the credit for successful activity goes to line departments of the governments rather than to the Council. Yet this point goes to the heart of the assessment of the Council. It is an instrument of coordination on important operational, activities rather than a pro-active vehicle for policy development on major strategic policy issues facing the Maritimes. Indeed, it is possible to identify a number of features of the Council's activities which raise questions about the lack of a strategic approach to Maritime cooperation.

Observations on Current Structure and Performance

In no fixed order, these problems can be summarized:

1. Lack of a clear regional agenda on major economic issues facing the Maritime Provinces and a mechanism to develop such an agenda;

2. No current focus on new institution-building arrangements similar to projects initiated by the Council in the past, eg. Atlantic Police Academy, the Veterinary College, the Land Registration and Information Service, and the like;

3. Increased lack of credibility of the Council as a delivery mechanism for programs within provincial governments and their line departments;

4. No central leverage of the Council into provincial decision processes — either in the Cabinet or each provincial bureaucracy;

5. Council's lack of perceived mandate by provincial line departments to handle specific policy issues and a low salience of the Regional Treasury Board;

6. No champions in provincial Cabinet on central policy thrusts or Maritime-wide initiatives;

7. Reluctance by Central bureaucracies in each jurisdiction to make the Council a central player in on-going priority setting, including incentives, rewards, training, manpower selection and future prospects; and

8. Inadequate focus on Premiers' collective Maritime agenda and means to deliver concrete initiatives;

9. An almost non-existent policy research role conducted internally or funded externally, and no on-line database to strengthen coordinated policy making for the region; and

10. A "wait and see" attitude by Secretariat personnel towards specific agenda items.

In recent years, various organizational weaknesses have emerged at the Council. The Secretariat has not received unambiguous signals about policy priorities from the Premiers. Specific initiatives from the Secretariat have been less than warmly received within provincial ministries. A sense of drift has permeated Secretariat staff. Members of the Steering Committee have not felt a sense of ownership on policy agenda items. Particular agencies of the Council — MPHEC and LRIS — have lacked a clear mandate on specific policy initiatives. At times, premiers have been disappointed at the triviality of issues placed before them.

But at the macro organizational level, the problems and challenges go much deeper. Many individuals close to the Council fully recognize these issues but are unclear about the will, let alone the strategy, to fix them. The starting point for change must come with the Council's Steering Committee, the mandate of the Secretariat and a proposed Premiers' Advisory Board.

Steering Committee

The Council's Steering Committee is the central vehicle to plan the Premiers' agenda for their quarterly meetings; to serve as a sounding board for Council activities; to act as an internal advisory board on specific initiatives; and to be linkages to provincial advisors to the Premiers on the on-going work of the Council.

Membership on the Steering Committee is relatively informal and ad hoc — deputy ministers of interprovincial affairs, head of provincial Cabinet Secretariat and deputy minister of the Treasury Board to cite three examples. In practice, actual involvement of individual members is piecemeal and reactive, depending on the salience of the Council to their respective Premiers at any point in time. From the Council's inception, the Secretary has been both Chairman and Secretary of the Steering Committee.

A new strategic focus to the Council would require a repositioned role of the Steering Committee. The Steering Committee should have two work agendas set. In the first case, the emphasis should be on a limited range of strategic topics, where issues have major salience for the Premiers. The second set of agenda items are operational questions of particular relevance to line ministries or items which are of a firefighting mode. Strategic issues should be treated quite separately and, in fact, should be the product of initiatives flowing directly from the meetings of the Advisory Board or the Premiers themselves.

Membership on the Steering Committee should be reconstituted. Each Premier should appoint two members:

1. A deputy minister who is in the highest position in each province, i.e. the Clerk of the Council or Cabinet Secretary; and

2. The most senior member of the Premier's political staff, i.e. the Principal Secretary. The Chairman of the Premier's Advisory Board should also be a member.

The Secretary should serve ex officio.

The Steering Committee should meet as often as necessary, but probably no more than four times a year. The expressed purpose of the Steering Committee should be to plan the Council's agenda and work plan, with a decided emphasis on strategic policies of critical importance to the Premiers. The Steering Committee should

operate with a marked bias to avoiding the placement of operational firefighting agenda issues on the Premier's meeting. Indeed, those items should be referred to what might be called an Operations Group, consisting of the three Cabinet secretaries and, as necessary, delegate the issue to the respective deputy ministers in each province for resolution. This Operations Group, serving informally as issues arise, should serve quite explicitly to keep operational issues, however important they are perceived by line departments, out of the deliberations of the Premiers serving as a Council.

There was also a recommendation for a strong Maritime Provinces Commission to carry out research and policy analysis and a joint legislative assembly meeting a few weeks each year. Neither approach was followed up.

The Secretariat

When the Council was first established in 1971, the Deutsch Report had recommended that it would have "a small permanent Secretariat of one or two officers to organize and expedite its work". Today the Council Secretariat consists of 16.2 person years (in practice, its operating size is closer to 15), and undertakes four specific functions:

1. To coordinate Council activities and follow up initiatives of the Premiers;
2. To serve as a central agency for regional programs and projects;
3. To act as a service function to provincial governments and agencies; and
4. To manage the Council's consolidated fund, trust funds and pension plan.

The Secretariat, in fulfilling the above functions, also monitors policies and developments related to regional issues, and the Regional Treasury Board, consisting of Cabinet Ministers from each province, serves as a screening body on financial issues. (A separate but related Secretariat serves the Eastern Canadian Premiers in their annual meetings with the six New England Governors.)

Over the years, the major issue facing the Council's work with the provincial governments is the degree to which the Council should be a delivery mechanism for services. The 1987 Task Force Review put the issue this way:

> *We maintain that a well-focussed staff support function should have no operational responsibilities. To be most effective, the Secretariat should be a facilitator, not a doer. Adherence to this principle has not been reflected in the evaluation of the Secretariat, its size and current portfolio of functions.*

This study has found widespread support for this observation. At times, the Secretariat appears to be into too many issues at any one time, spreading its analytical capacity too thin. Officials in provincial line departments feel that the Secretariat simply duplicates work already underway in the provincial governments. Moreover, by trying to be a vehicle for delivery of Council services, and thereby build up client acceptability, the Council Secretariat, in fact, has lost a degree of credibility within provincial governments where its support is most important. But in the evolution of the Council, the size in terms of person years is neither excessive nor inefficient.

A refocussed Council Secretariat should concentrate on a limited range of policy topics, mandated to it by the Premiers directly or initiated by the Secretariat but approved initially by the Steering Committee. The Secretariat should be able to maximize its credibility and policy expertise on particular issues by involvement of personnel on Task Forces or studies from within and outside government depending on circumstances.

In personnel terms, the Secretariat should be a recognized vehicle of importance in career terms by each provincial government. Recruitment of especially qualified personnel on short assignments would be a powerful signal by the Premiers of the importance placed on the Secretariat's work and the complementary and supportive activities it has on the Premiers' own policy agenda.

Examples of potential areas of policy study for the Secretariat include:

1. Federal procurement policies;
2. Impact of Europe 1992 on the Maritimes;
3. International tourism promotion;
4. Long-term science and technology; and
5. The competitiveness of agribusiness in the Maritimes.

Maritime Premiers Advisory Board

Political leaders serve many constituents and clients. Anyone remotely familiar with Cabinet Government recognizes that the Premier's ultimate scarce good is time. A major problem for political leaders is the expressed need to twin the obvious desire to think, plan and reflect and the practical demands of day-to-day pressures for meetings, firefighting, political activity, travel, personal and family life and the like. The test is to have fewer meetings but to have them focus on more strategic, long-term concerns.

Increasingly, some issues do not blend easily into the traditional policy process, in part because of their complexity, in part because the information requirements and analytical basis for policy analysis may be weak in the traditional bureaucratic structure.

The industrial development and wealth-creating capacity of the Maritimes is increasingly in that position. The issues cross provincial jurisdictions. The policy inputs involve many facets, including finance and the cost of capital, science and technology, small business, market expansion, development of entrepreneurial talent, government-to-government initiatives and the like.

A Maritime Premiers Advisory Board is recommended on a three-year trial basis. Its membership would have to be blue ribbon, high quality personnel, say fifteen in size. Political affiliation per se would not be a criteria either for selection or exclusion. Unlike the experience of ACOA, the Premiers' Advisory Board should not be a group of nominees from each province, but rather should be an agreed list of nominees of the Premiers acting in concert. The major strength of its collective membership would be the high quality of its contacts, information and networks, particularly those international in character with a bias towards industry or international activities. Maritimers living outside Canada or the Maritimes should be seen as prime candidates to serve as members.

The Premiers Advisory Board would not meet too often, say two or three times per year. The primary role of the Board is two-fold:

1. To help the Premiers establish a collective strategic agenda for the Maritime Region, particularly in the area of industrial development; and

2. To serve as a sounding board for strategic policy initiatives prepared by the Council.

In its ideal format, the Board and the Premiers would work as a partnership to develop long-term agenda initiatives. This Board would emphatically stay away from the day-to-day work of the Council. It might request studies on particular topics or ask about particular Council operations. But the rationale of the Board would be strategic, long term and primarily economic, where appropriate. It would delegate policy analysis, working papers, data gathering and the like to the Council Secretariat. In some circumstances, it might ask for work from outside bodies. The primary benefit of such a Board is to give the Premiers a strategic context — global trends, ideas from other jurisdictions, international opportunities, contacts and points of reference, which the Premiers are not currently receiving, either from the Council Secretariat or it might be added, from their own officials.

Premiers should undertake to initiate the Advisory Board forthwith, with the initial meeting planned for the Spring of 1990.

III Strategic Options for the Council

"Traditionally Canadians have presumed that technical progress would take care of the future and that increases in productivity would ensure continued improvements in the standard of living and greater prosperity for future generations. The issues that the Council has explored suggest that such complacency is inappropriate."

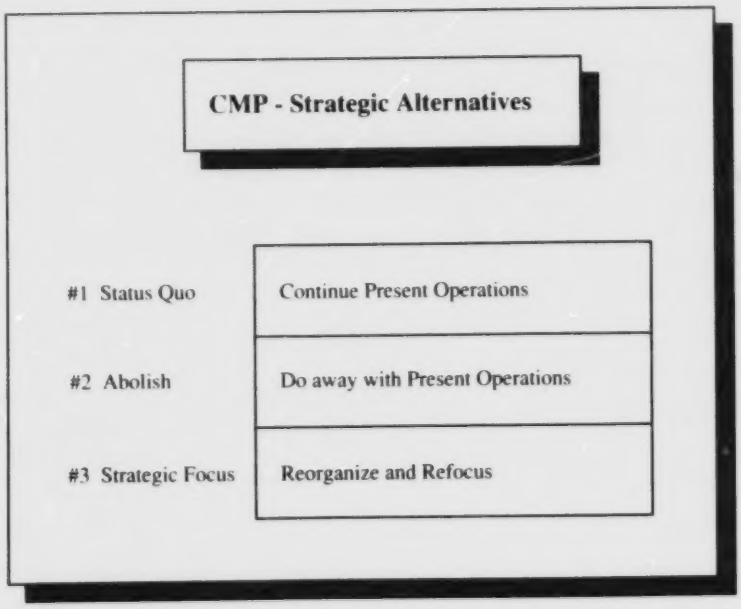
- Economic Council of Canada, 26th Annual Review, 1989

In the end, all work of the Council stems from the political direction of the Premiers. No amount of studies, consultations or wish list thinking can obviate the fact that the core mandate of the Council and its staff must come from a vision of the Premiers. This seemingly obvious fact has guided the work of this study, and the apparent need to examine options based on realistic agenda items facing the region which are amenable to concrete action programs. More to the point, it became obvious early in the course of the study that political leadership, not bureaucratic desires, should shape the future mandate of the Council. The specific options open to the Council have been shaped with these considerations at the forefront.

Throughout the Maritime region, within government and in the private sector, there is a profoundly felt sense of drift and despondency. Despite the buoyant economy of the past five years and promising initiatives of vital importance to the region, such as the establishment of the Atlantic Canada Opportunities Agency, there are powerful undercurrents of concern and worry, particularly since entire communities are affected by events perceived to be outside people's control: for example, CN rail abandonment, VIA rail cutbacks, defence base closings, shipyard closings and fish processors' retrenchment. Buoyant economic activity has disguised the precarious structural features of the economy, including many marginal companies, low export intensity and a weak manufacturing base. For many officials in the provincial governments, there is a view, even if badly articulated and communicated, that the political system is dealing with micro questions of secondary importance, while ignoring and, indeed, misunderstanding the larger macro issues facing the region. In the absence of a Maritime focus, Premiers are forced to deal with provincial issues without a clear context for the options where provincial activity can strengthen overall Maritime economic development. Again, it is the argument of missed opportunity.

So the Council's agenda is torn and twisted by the interplay of narrow provincial interests and important but secondary on-going programs. This context provides a framework to assess the future options open to the Premiers to manage the Council.

Exhibit 5



Three broad alternatives were examined for this report. In a summarized fashion, the strategic alternatives are threefold: to accept the status quo, to abolish the Council or to reinvigorate the Council. The assessment of these options involved detailed interviews with present and former public servants, present and former Premiers, federal MPs, provincial Cabinet Ministers, private sector executives, Council staff, university presidents, consultants and federal officials. The overwhelming advice for this report was Option 3.

Option 1 - Status Quo

- Accept existing structure;
- Focus on current operations;
- Mix of delivery approach and policy advice; and
- Council "above" line provincial Ministries.

Opinion within the government and outside the government was virtually unanimous on the need for change in the status quo. The region's policy mix had changed; the focus of the federal government had changed; the strategic development opportunities of the Maritimes have changed; and so must the Council. Several specific problems have been cited with the current structure.

- Line ministries do not buy into CMP initiatives;
- No priority objectives;
- Unclear mandate to CMP Secretariat; and
- Overlapping work with Provincial Ministries.

The major argument against preserving the status quo is that the magnitude of the problems facing the region is increasing while the capacity of the Council to deal with them has declined. Either the Council is relevant to real problem solving or it is not viable.

Option 2 - Abolish Council

The second option is to simply abolish the Council as an institutional vehicle of the Maritime Premiers. In its pure form, this option would leave the Premiers and specific Ministers to coordinate plans and priorities through their own offices and to abandon any future pretense of real cooperative activities through the Council.

Despite criticisms of the Council's operations, and the lack of a clear strategy articulated by the CMP's political masters, interviews revealed overwhelming support for continuation of the Council. Numerous comments were made about the frustrations and weaknesses of the Council and its propensity to focus on small micro issues better left to the provincial bureaucracies and their departments. But these were in the main frustrations and weaknesses which impinged on specific aspects of the Council's activities and decidedly not on the basic rationale of the Council, or the continued raison d'être of the need for better coordination and improved strategic policy-making by the Maritime Provinces.

Parenthetically, it was a widespread observation made to this Commission that the Council was a legacy of those who, in the 1960s, wanted to introduce a real political union of the Maritime Provinces. Indeed, this expression of the desirability for Maritime union is viewed as a clear but unstated problem for the Council, because the vast majority of citizens do not want political union. Indeed, one prominent deputy minister went so far as to say privately, "There should be a cathartic recognition that any continuing role the Council may have in the political or economic union of the three Maritime Provinces would be pursuing an issue which has no longer any relevance in the three provinces".

However, there were other relevant factors which reinforced the need, indeed the necessity, for continued Council activities. First, like many government agencies, the Council undertakes a plethora of activities to generate cooperation of which most people are not aware. Second, there are some areas — health, education, federal-provincial relations and, increasingly, industrial development — for which the Maritimes should, indeed must, develop common policy positions and coordination which the Council can best perform. And third, the Council has a very small budget and staff vehicle to deliver common positions and consultations

which, in the absence of the CMP, the three governments would have to create. In short, there was virtually no support for the proposition that the three governments would save money in the long run by abolishing the Council. Not a single senior official in any of the Maritime Provinces favoured the option of abolishing the Council.

Option 3 - Strategic Revitalization

This third option is the most complex, for a variety of reasons. It taxes existing attitudes and structures. It poses challenges to accepted assumptions about the Maritimes. It forces serious choices for all citizens and institutions, not only in the public sector but in the private sector. That option is to make the Council a pro-active instrument for concerted Maritime cooperation.

Consider the potential. The Maritime Provinces, contrary to myth, are not a small area or population. There are more than two million people in Atlantic Canada, below average by national standards of income to be sure, but well above international income standards for most of the world's population. Its seaboard location makes the Atlantic Region a potential springboard to the Europe of 1992, but also Scandinavia, the Middle East, the Caribbean and the U.S. Atlantic Seaboard.

The area is rich in resources, in educational institutions, in infrastructure development and in secure supplies of energy. Potential new investment in energy utilities — coal, oil, nuclear — could amount to $2-3 billion over the next decade, involving some of the most advanced technology existing anywhere in the world. New infrastructure investments in highways, the fixed link between New Brunswick and PEI and ferries could amount to over two billion dollars.

What Atlantic Canada lacks is a vision of a new future, not only the instruments to implement a plan, but also a set of concrete steps to build an internationally competitive industrial base in Atlantic Canada. The region has not lacked bold plans in the past — least of all by governments. Maritimers are suspicious of plans, especially those that imply a government-imposed blueprint for specific actions.

Yet in the past and in the present, Maritimers have been shortchanged. Shortchanged by an acceptance of the status quo as a "have not" province. Shortchanged by a conviction in government and the public policy apparatus that Maritime incomes will reach national levels or that the industrial base of the region will expand.

Are forward-looking, cooperative approaches to industrial development a realistic manner to conduct affairs in the Maritimes, given the long history of provincial nationalism in the region? Is there any underlying hope, let alone realism, to the proposition that the Maritime governments can work as a united front to promote the region, not only in Canada, but in foreign markets as well? Would a regional approach require a measure of unitary government that New Brunswickers, Nova Scotians, and Prince Edward Islanders would find unacceptable?

These issues are not idle political concerns. They point to the historical basis of provincial autonomy, the legitimate suspicion of "solutions" imposed from the outside, the understandable fear of creeping "outsidism" that provinces will lose their capacity to guide their own future.

The model of cooperation proposed in this study is not one of extremes. Maritime union is a non-starter. It must be registered as a non-viable solution to governance in the region. Maritime cooperation can only build on this premise. Maritimers are no different than citizens elsewhere around the world, suspicious of easy quick-fix solutions, jealous of their capacity to control, as far as possible, their own affairs. Yet a truly cooperative effort among the Maritime Provinces begs for initiatives in a range of policy areas which have nothing to do with diminishing provincial autonomy. The Maritimes is part of the global economy independent of local acceptance of that fact. OPEC oil prices impact Maritime electrical utility prices as surely as Japanese decisions to increase imports open new possibilities for agriculture and fish exports. Anti-nuclear energy policies in the New England states have as much to do with industrial potential in the Maritimes as European deep sea trawlers impact the livelihood of fishing communities in Atlantic Canada. The foreign influences on the Maritimes are

obvious, if not focussed. Yet Maritime responses to these international influences are not coordinated, pro-active or widely recognized.

Unfortunately, other smaller jurisdictions are moving faster. The smaller countries of Europe design policies to deal with larger economic influences in anticipation, not reaction, to bigger jurisdictions. Southern U.S. governors, aware of the economic and political influence of big Northern states in overseas markets such as Japan, Korea and Hong Kong, have developed coordinated mechanisms to promote industrial development by governments and their private sectors *working in concert*. Indeed, seven U.S. governors and a state delegation of some 70 CEO's recently met in Japan with businessmen, government personnel and advisors to promote new initiatives in investment, technology agreements, university-business links, scholarships and the like. Why should this not be a model for Maritime Canada, especially in such areas as New England, Scandinavia, Japan and Southeast Asia? This is the new challenge facing the Maritimes. A vigorous, cooperative, pro-active strategy must be seen as a tool of the 1990s, based on a confident view of Maritime talent, a recognition that international forces and influences must guide domestic initiatives and that entrepreneurship and technology are the new tools of wealth creation.

The brutal fact is, by standards of international comparison, the Maritimes are in a vicious circle of dependence and inward-looking attitudes.

- The vast majority of economic enterprises are dependent on local markets and often public sector support;

- Most exports come from relatively few products, and mostly unprocessed raw materials (pulp and paper, fish, mining, types in Nova Scotia and New Brunswick; potatoes, fish and agricultural products in P.E.I.);

- The Maritimes are a case study of the 80-20 rule. Eighty percent of exports come from 20 percent of firms. Eighty percent of real tradeable goods and services can be accounted by 20 percent of managerial effort; and

- Maritime firms and governments are constantly chasing new investments, new entrepreneurs and new markets, yet there is no underlying analysis of the Maritime's growing trade imbalance in high technology goods, in job-intensive services or in value-added products related to Maritime raw materials.

An invigorated Council should be a vehicle to refocus the region's potential in the new international environment. The thrust should be pro-active and outward, rather than defensive and inward. New approaches are needed. The Premiers must take the lead. The Premiers could signal a personal commitment to the Council's new agenda by a new system of rotation where each Premier would serve as Council Chairman for six months each year and would press particular initiatives forward through the Steering Committee, the provincial machinery and, where necessary, even the larger federal-provincial consultative processes.

The next sections in this report consider novel ways to deal with these issues.

IV The Challenge of Regional Development Policy

"When schemes are laid in advance, it is surprising how often the circumstances fit in with them."

- Sir William Osler

Regional growth in Canada can be explained by many factors, including the state of the overall economy, the business cycle, interest rates and business confidence. But underneath these general factors are specific, structural issues of particular concern in Canada, namely the international competitiveness of such sectors as agriculture, commodities and oil and gas, on the one hand, and secondary manufacturing on the other. It is noteworthy that some analysts argue that in the new world economy, the state of the primary sector and the manufacturing sector are no longer acting in unison. They have been decoupled in the global economy.

This phenomenon exists in Canada. For much of the 1980s, the Prairie Provinces have been hurt by low commodity prices, farm income and a cyclical downturn in oil and gas. While total output for Canada averaged an increase of 60.5 percent during 1982-1988, and labour income increased by 50.5 percent, the four Western Provinces experienced substantially slower growth in both total output and income. Output growth of all four Atlantic Provinces exceeded the national average. What lies behind these figures has been the shift in importance of raw materials to a manufacturing and service base, especially in Ontario but also in Quebec. These are the areas of fastest employment growth and strengthening of the industrial base. It is here where Atlantic Canada faces many challenges over the next decade, as the terms of trade move favourably towards flexible manufacturing and technology-based companies.

Indeed, entrepreneurs and workers are starting to recognize these fundamental structural changes. If anything, given the levels of family income and the gap between Atlantic Canada and the Canadian average, the chances of closing them in the short term seem very remote. In this respect, Atlantic Canada has experienced a decade of frustration on the issue of regional development. For many Maritimers, the key concern is the level of expenditures by the federal government. A more cogent analysis suggests other factors are at work, including the locus of decision making (Ottawa versus Maritimes), federal procurement policies, Crown Corporation activity, management depth, coherent policy development, availability of venture capital, financial costs and the like.

Table 1

PROVINCIAL AND NATIONAL OUTPUT: 1979-1988

	Labour Income		Total Output		Family Income
	79-82	82-88	79-82	82-88	1988
Canada	+38.5%	+50.0%	+35.5%	+60.5%	$46,185
Alberta	+63.5%	+24.0%	+49.0%	+19.5%	46,283
Sask.	+46.5%	+37.0%	+41.0%	+24.0%	40,357
Nova Scotia	+33.5%	+54.5%	+39.0%	+68.5%	39,671
B.C.	+42.0%	+29.5%	+38.0%	+45.5%	45,264
Manitoba	+40.0%	+47.5%	+36.0%	+54.5%	43,121
P.E.I.	+33.0%	+56.0%	+34.0%	+65.5%	34,535
Quebec	+32.0%	+51.0%	+33.0%	+67.0%	41,328
Ontario	+36.0%	+65.0%	+31.5%	+80.5%	52,764
Nfld.	+33.0%	+39.0%	+29.5%	+51.0%	36,076
N.B.	+35.0%	+50.0%	+21.0%	+74.5%	37,308

Source: Statistics Canada

Clearly an area of vital concern to Atlantic Canada is the federal government's general macroeconomic policies, as well as the particular policies to promote development within the region. There can be little reason to doubt that the two must work in concert. More specifically, it is now an open question whether macroeconomic policies aimed at maximizing total output and income at the national level, despite the concentration of impact on Central Canada, have the assumed consequence of bringing long-term prosperity to the Atlantic region. Moreover, it is open to question whether this approach will have any positive impact on building a market-based private sector competitive in foreign markets. Indeed it cannot be overstated to point out that the development of more private sector activity is a sine qua non of job creation opportunities, but so too is the need for a new sense of self-direction, expansionist economic policies and reliance on individual effort.

Indeed, it was this central concern that the regional economies of Canada did not prosper proportionately with economic growth in Central Canada that inspired federal initiatives such as the Atlantic Canada Opportunities Agency and the Western Diversification Initiative. More tellingly, the pervasive Ottawa view that the best regional policy is an acceptable macroeconomic policy underlies the explanation for the lukewarm bureaucratic

Table 2

FEDERAL PROGRAM EXPENDITURES BY REGION OF BENEFIT
(IN $ MILLIONS)

	1984-1985			1985-1986			1986-1987			1987-1988	
	Budget	Expenditures		Budget	Expenditures		Budget	Forecast After Discounts		Proposed Allocation	
	$	$	%	$	$	%	$	$	%	$	%
Newfoundland	35.1	29.8	3.8	62.3	53.4	7.4	57.6	57.0	7.1	30.0	3.4
Prince Edward Island	15.3	6.0	0.8	11.6	11.3	1.6	9.1	8.1	1.0	7.6	0.9
Nova Scotia	63.8	52.3	6.7	38.4	36.7	5.1	71.1	50.8	6.4	62.2	7.1
New Brunswick	45.2	45.0	5.8	39.4	24.6	3.4	63.5	64.7	8.2	25.8	2.9
Québec	338.9	338.2	43.5	356.1	312.1	43.5	362.7	311.1	39.2	452.0	51.4
			64.3			65.7			63.6		67.6
Ontario	251.9	161.5	20.8	174.8	159.2	22.2	171.6	193.6	24.4	142.3	16.2
Manitoba	79.8	74.0	9.5	51.6	43.4	6.0	41.2	37.5	4.7	74.4	8.5
Saskatchewan*	15.2	12.6	1.6	21.4	15.1	2.1	26.2	22.0	2.8	23.1	2.6
Alberta	17.4	15.0	1.9	15.6	14.5	2.0	15.9	9.5	1.2	13.4	1.5
British Columbia	55.3	37.0	4.8	50.2	38.0	5.3	44.5	39.6	5.0	36.1	5.6
Territories	7.5	5.9	0.8	—	10.1	1.4	—	—	—	—	—
Overbudget**	—	—	—	(50.9)	—	—	(89.8)	—	—	—	—
Total	925.4	777.3	100.0	770.5	718.4	100.0	773.6	793.9	100.0	879.9	100.00

* For 1986-1987 and 1987-1988, budget and expenditure information includes the Territories. For 1985-1986 budget information includes the Territories.

** Represents the difference between allocated budgets and the departmental reference level.

Source: Department of Regional Industrial Expansion

sentiments towards ACOA. Yet outside think tanks and policy analysts have argued persuasively that there is a strong propensity for macroeconomic policy to increase the level of regional disparities. Consider the following analysis from the C.D. Howe Institute:

> Evidence indicates that rather than providing a stabilizing influence, key government policies have actually aggravated differences in regional performance.
>
> The impact of federal monetary and fiscal policies on regional interest rates and the external value of the Canadian dollar has created greater problems for the resource-producing provinces of the West and the Atlantic region than for Central Canada. Federal fiscal policy provided little countercyclical stimulus in the Atlantic provinces during the recession and has perversely continued to provide stimulus in Central Canada ever since economic activity began to rebound strongly in that part of the country. Provincial fiscal policies have provided meaningful countercyclical stimulus only in the Prairie region. Perceived financial constraints have led the Atlantic and provincial governments to adopt policies of fiscal restraint that have aided their credit ratings but have added to the weakness of their economies.

The principal concern for both public and private sector policy makers in Atlantic Canada should be and must be to improve the macroeconomic performance of the region, i.e. wealth creation, productivity, output and employment. Yet the evidence shows that both the national policy framework and the institutional instruments of Atlantic Canada have the unintended consequences of keeping that economy's output well below the national average. Consider the following table. It shows the number of periods, measured on a quarterly basis between 1971 to 1987, where the rate of change in the level of unemployment in Atlantic Canada, actually went in opposite directions with that of Ontario. This data reinforces the current experience in Canada, where an overheated economy in Southern Ontario invites a national policy response of tight monetary policy and loose fiscal policy (rather than the reverse) with severe impact on Atlantic Canada.

Table 3

CHANGES IN UNEMPLOYMENT RATES

ONTARIO VERSUS ATLANTIC CANADA

	Newfoundland	Nova Scotia	New Brunswick	P.E.I.
Quarters	23	22	20	28
%	44	42	38	64

Source: Statistics Canada

Obviously employment levels and economic production are not static terms, and the cycle of growth can produce different patterns of upward growth or decline across different cycles, i.e. the leads and lags across regions. The next table measures the number of years where the rate of change in unemployment in the Atlantic Provinces and Ontario went in opposite directions for half the year or more. In other words, as prosperity lowered unemployment rates in Ontario, unemployment actually increased in the Atlantic region.

Various explanations account for this phenomenon. There is a lag in production output between Ontario and the Maritimes. Ontario firms have easier access to local suppliers. There is a pull of workers in the industrial heartland, not only from rural areas of Ontario, but from other provinces. Maritime firms are slower to adapt to external market conditions and to rely on aggressive export strategies when local markets slow down. Technological upgrading is more of an option in Ontario for many industries, where access to capital is easier. So too is the impact of "locomotive" industry sectors in manufacturing, such as the auto sector in Ontario, aerospace in Quebec or new areas of growth, such as computers, office equipment and aluminum smelting. The Atlantic economy has a few "magnet" industries — shipbuilding in Saint John, certain manufacturing areas like tire production in Nova Scotia or food processing in P.E.I. — but these remain the outstanding exceptions.

Table 4

CHANGES IN UNEMPLOYMENT RATES

ONTARIO VERSUS ATLANTIC CANADA

(Half Year or More)

	Newfoundland	Nova Scotia	New Brunswick	P.E.I.
Years	6	8	7	10
%	37.5	50	45.75	77

Source: Statistics Canada

Labour markets also help to explain these phenomena. Many workers in Atlantic Canada are tied to seasonal jobs — lobsters, fishing, farming, etc. Many workers, in fact, hold down several specific jobs across the calendar year, depending on the season as well as the level of economic activity in the local area. Many workers hold jobs in manufacturing areas primarily to meet the annual unemployment insurance requirements. Often several people in the same family rotate jobs in such areas to meet these requirements. But these jobs are highly cyclical, and the actual work force in a particular plant can reflect a high degree of individual turnover.

Table 5

NUMBER OF QUARTERS 1971 - 1986

ONTARIO VERSUS ATLANTIC

WAGE AND SALARY GROWTH VERSUS NATIONAL AVERAGE

	Newfoundland	Nova Scotia	New Brunswick
Quarters N = 51	35	27	24
%	69	53	47

Source: Statistics Canada

Table 6

NUMBER OF QUARTERS 1971 - 1986:

ONTARIO VERSUS ATLANTIC

IN OPPOSITE GROWTH DIRECTION

	Newfoundland	Nova Scotia	New Brunswick
Quarters	26	18	21
%	51	35	41

Source: Statistics Canada

WAGE MULTIPLE

ALBERTA / ONTARIO VERSUS ATLANTIC

	Newfoundland	Nova Scotia	New Brunswick
Ontario			
1971	1.90	1.82	1.74
1986	1.95	1.56	1.64
Alberta			
1971	1.45	1.40	1.33
1986	1.79	1.43	1.51

Source: Statistics Canada

The implications of this analysis should not be taken lightly. It shows a massive structural disparity in the economic development of Atlantic Canada. Macroeconomic policies at the federal level show no propensity to narrowing the income/employment gaps between the national average and the regional level. Federal spending or macro growth in Central Canada will not by itself produce economic growth and lower levels of unemployment in the Maritimes. Maritimers, to be sure, should not feel poor. Relative to most of the world's population, and even the very rich economies outside North America (Japan, Germany, France, Britain and Italy), the per population weighted GDP per capita of the Maritimes was almost equal. The problem, in short, is two-fold. First, Central Canadian growth is increasingly faster than Atlantic Canada's growth (in the 1970s it took five years for Atlantic Canada to catch up with the national levels of income and growth; in the early 1980s, the lag became 8 - 9 years; recently the level is 13 - 14 years). Second, the level of growth and income in other OECD economies has been even more dramatic. The Maritimes increasingly must run faster to stand still.

In the course of the consultations for this Report, it was found that a deeply felt and recurrent theme by senior corporate executives, politicians in Central Canada (of all parties) and bureaucrats was that Atlantic Canada received a disproportionate share of public sector largesse and that Atlantic Canada was a welfare case whose bottom line was a blank cheque. One particular quote is illustrative of this point:

> People in Atlantic Canada are historically ungrateful. They receive bucketfuls of money from Ottawa; they are massively subsidized by the richer provinces; and they have no answers to their own problems other than to ask for more. Just what precisely will it take to please them?

Political rhetoric by Maritime politicians has added to this stereotype of Maritime Canada as an ungrateful welfare case dependent on Ottawa and an overtaxed Canadian population. Historically, the case for Atlantic Canada has been eloquently put in the Confederation debates, in the constitutional talks and in the academic and cultural literature on the makeup of Canada.

What is curious is how badly Maritimers have articulated, not their relative economic disparities and low incomes but, how Central Canada, in the name of national policy, has shaped a deeply ingrained industrial structure that seems to favour Central Canada but without the negative connotations of "regional development"

with all its attendant welfare trappings. Atlantic Canada, by contrast, without access to structural policies which favour indigenous growth or access to a large market, has been forced into dependence and reliance on the policy game and vocabulary of regional development and the resulting consequences of dependence and aid from Ottawa.

What do these issues mean in practice? How is the federal system weighted towards a structural bias in Central Canada? Some specific but major indirect examples:

1. Auto quotas, a subsidy to Ontario workers of some $167,000 per job, imposed on Canadian taxpayers;

2. An Ottawa-imposed regulatory system on Canadian pension plans requiring a limit of only ten percent investment outside Canada (i.e. favouring the Toronto Stock Exchange), despite the vastly superior returns in foreign markets;

3. An expenditure bias in procurement on the part of government departments and Crown Corporations in favour of Central Canada, including in such program areas as defense support and procurement;

4. Despite obvious differences in income, wealth generating capacity, industrial investment and skills diversity, federal spending by Ottawa in the industry department (DREE, DRIE, ISTC) is passively skewed towards Central Canada, i.e. two-thirds of total expenditure in the 1980s;

5. An inherent bias in immigration programs which favour Central Canada, based on the simple point that jobs and large population centres go hand in hand; and

6. Historically, tariff, transportation and taxation policies favour manufacturing near large markets, i.e. Ontario and Quebec.

The weak scientific and technological base of Atlantic Canada, relative to Canada's comparatively weak position internationally, can be documented by a few pertinent statistics for each province. New Brunswick, for instance, spends less than 40 percent of Canada's national average. Nova Scotia, with one of the highest levels of total spending on research and development by performance, actually funds a small amount of actual R & D expenditures. P.E.I. allocates about $1 million. More recently all Canadian provinces have increased spending on R & D; on average between 1985 and 1988, an increase of 21 percent, or net of inflation 7 percent, an impressive increment.

The current debate about raising the total Canadian level of funding to a target of 2.5 percent of GNP by the year 2000 has a special significance for the Maritime Provinces, where there are significant human resources but scarce financial resources. For example, provincial estimates from Ontario suggest that the five-year incremental cost to the Maritimes, to meet the 2.5 percent target, would be $42 million ($12 million for Newfoundland) tabulated in 1988 dollars.

The Maritime Provinces have not addressed these issues in any coordinated fashion, either to assess the impact of such targets on the region, to consider the potential for new initiatives in such areas as regional centres of excellence or to design forward-looking initiatives in new areas, such as biotechnology and industrial spinoffs from the Atlantic Veterinary College.

Yet the Maritimes have been less than aggressive players in this game, despite the evident success of major companies such as the Irvings. Generally speaking, neither governments nor the private sector have sought out technological solutions to overcome certain inherent disadvantages, nor overseas markets as export strategies to overcome small markets. Moreover, the region has suffered most as a result of interprovincial tariff barriers and an inherent desire to live behind protected jurisdictions serving local markets only.

Policy Analysis and Data Banks

Policy analysis and strategic data gathering has been weak. Neither the provincial governments nor the Council have a systematic way of developing data on major areas of regional development policy, including procurement patterns, technology transfer, appointments on federal boards and agencies, international business alliances and the like.

Discussions and interviews with provincial deputy ministers, former deputies, politicians, academics and businessmen constantly brought attention to the lack of solid data banks in the public policy process in Atlantic Canada. Timely, relevant and comprehensive data are critical to the public policy process generally. In the Atlantic region, data are especially important given the salience of political pressure groups, emotive arguments and a history of key decisions being made premised on alleged political criteria.

Despite the seemingly obvious grounds for solid data, there are clear reasons why a more comprehensive approach to data collection and analysis might not be adopted. Incomplete data implies fudged decision making. Incomplete data can disguise hard choices and allows the policy process to provide ambiguous rationale for choices. Inadequate or faulty data equally allows incremental decisions based on inadequate understanding of issues to become very serious structural flaws in the public policy process — flaws such as weak analysis, lack of understanding of underlying premises, misunderstanding of relationships, and inadequate learning over time. These flaws in the short term are serious. In such big areas as health care, education, the environment, science and technology, resource management and labour force adjustment, these data inadequacies amount to nothing less than a flight from reality of decision makers, politicians, bureaucrats and advisors alike.

An effective Council Secretariat should develop a "state-of-the-art" data bank for use by the Advisory Board and the Premiers in such vital areas as federal expenditure patterns, provincial and regional health care costs, procurement by federal government departments, crown corporations and agencies, appointments on federal boards, agencies and commissions, trade data in overseas markets, particularly those cited in this study, data on experts in service technology and overseas investments, province by province and sector by sector.

Table 8

OUT-OF-PROVINCE HEALTH CARE COSTS

(1987 - 1988)

	New Brunswick	Nova Scotia	P.E.I.
Hospital Services	-26	+14.6	-10
Medical Services	-5.6	-	-1.5
Residency Training	-3.5	-	-0.09

Source: CMP

Increasingly, technology is changing the strategies for industrial development faster than governments are changing their decades old approach to job creation. The microelectronics revolution, in particular, has altered both the corporate and the government view of how jobs are created in fundamental structural ways. For instance, in many sectors, the playing field between big companies and small companies has leveled out, since small companies no longer face the enormous entry barriers to many markets. Transport costs are minimal. Capital intensity has fallen, and small companies have advantages of flexibility, innovativeness and easier control of costs.

But the implications of these issues are what will make or break industrial policies by governments. In the past, governments viewed their priorities in terms of job creation through industrial start-ups. Search out companies willing to invest in plant and equipment. Subsidize start-ups via tax relief, interest buy downs and infrastructure — by extension, the bigger the project, the more the jobs.

In today's world, that is no longer true. Long-term sustainable job creation comes from the marriage of technology and markets. A fish plant in Caraquet may have once needed financial capital to expand in processing equipment. Today the emphasis can be on digital processes and measuring equipment, which require skilled labour. Yet the local labour market may consist only of skilled and semi-skilled workers whose functional literacy may not extend much beyond grade eight.

Yet throughout the Maritimes, as a region, there are enormous regional variations in the capacity of villages, towns and cities to cope with the new demands of technology and market changes. Paradoxes abound. Saint John has one of the highest investment rates in new plant and equipment of major cities in all of Canada. Campbellton, an hour's plane trip away, is facing massive deindustrialization, with consequent loss of population, skilled young peoples and transportation links to Central Canada.

Recent research on job creation, business start-ups and economic growth provides strong evidence that long-term industrial development stems from a number of closely linked factors. First, there is the climate for growth, including the investment climate; attitudes towards entrepreneurship; proximity and quality of professional talent; and supportive training programs. Second, there is the physical infrastructure, such as quality airports, schools, universities and R & D laboratories. And third, there is the question of linkages, big firms to small firms; companies to universities; and the private sector to the public sector, including municipal governments. On a global scale, the judicious mixture of these factors is neither randomly distributed nor easily replicated. In the U.S., Boston, North Carolina, Dallas and Silicon Valley are notable examples where there is a powerful magnet of people, money and ideas building economic growth. Central to these examples is the role of the universities, in particular, the graduate schools. In Boston, the role of the Massachusetts Institute of Technology is an often-cited example, but the impact of M.I.T. is no less important to the underlying issues. In the past ten years, M.I.T. has spawned some 220 companies. In total, of the 636 companies founded by M.I.T. graduates, the estimated income generation is almost $200 billion, employing about 190,000 people. About one out of every six dollars spent on research at M.I.T. is funded by industry.

Obviously, circumstances differ in Atlantic Canada, but the basic issues remain. The Maritimes have an excellent network of universities and community colleges, but institutional cooperation on research remains weak or non-existent. Few links exist between universities and business. Too little research is world scale. Too many academic programs try to replicate work and approaches at other big Canadian or U.S. universities. Critical mass to key strategic areas is weak.

In all these instances, changes can be made. Regional centers of excellence would help. Funding of research programs requiring cooperation between business and universities would add to the incentives for better focus and industrial payoff. More cooperative ventures among the provincial science and technology advisory boards would add to the infrastructure of advice-giving. More attention to science-based innovation would raise the awareness level of new approaches to economic growth.

From its origin, the Council had a mandate which included "initiation of studies on economic, social and cultural programs and policies which affect or concern the Maritime Provinces." Yet the Council has, over the years, played only a minor role in research, in setting a research agenda or in coordinating research efforts either among those groups who provide research, such as federal and provincial governments, the universities or in

private sector groups; or groups who are potential users and clients of the research. Recent attempts to build a research agenda by the Council have focussed on five approaches:

- A Maritime Provinces Research Agency;
- A Maritime Research Fund;
- Council and governments;
- Council and Steering Committee; and
- Secretariat.

The preferred method of those five alternatives is the fourth, namely Council and the Steering Committee, possibly using Secretariat staff for the coordination role but engaging external researchers based on strategic issues identified by the Steering Committee and the Council.

V A Vision Option: A Competitive Maritime Canada

"A new generation of entrepreneurs has arisen, people willing and prepared to take a chance."

- Towards 2000, an Economic Development Strategy for New Brunswick

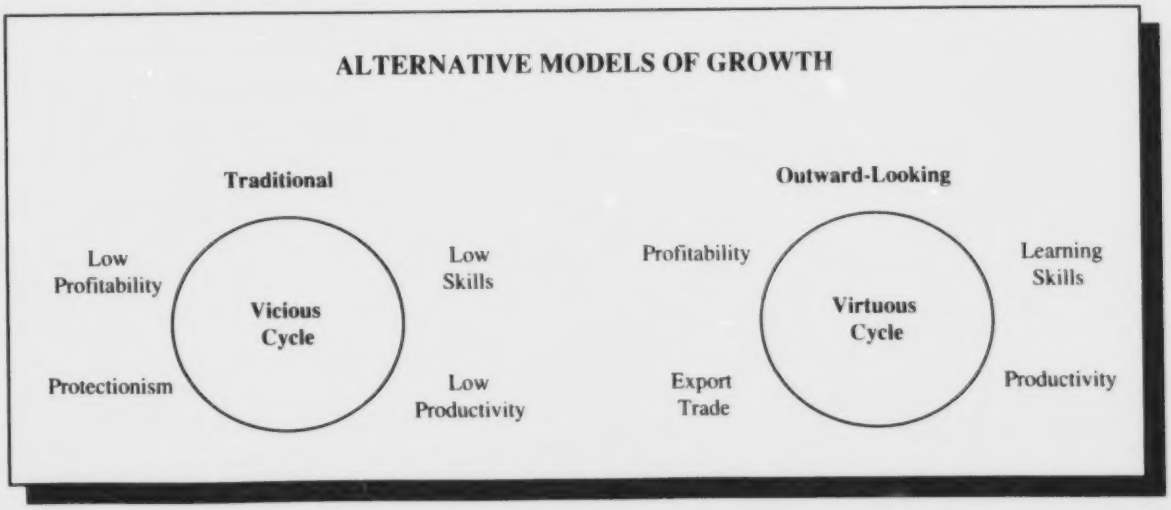
The Atlantic region faces major challenges in the 1990s. Much is made of the need for international competitiveness in the global economy. These are themes echoed in political speeches and Chamber of Commerce rhetoric. But the real implications of international competitiveness are rarely addressed, nor are the specific consequences for governments. The new global environment dictates that governments and public institutions, no less than the private sector, must be pro-active, flexible and competitive. This approach is equally true of the Council of Maritime Premiers. Flexibility, resiliency and a forward orientation are the new keys to economic performance.

These challenges pose special difficulties for Atlantic Canada. Successful political jurisdictions will take specific problems and design programs to deal with them with measurable targets.

But target setting must take place in the context of a new understanding of external economic forces. It is no accident that some of the world's most successful firms operate in close proximity — automobile firms in Detroit; film studios in Hollywood; advertising firms on Madison Avenue; or high technology firms in Boston or Silicon Valley. Nor is this a phenomenon confined to the U.S. Three of the world's largest motorcycle companies originate in Hamamatsu, Japan, a small city west of Tokyo. The German cutlery industry is located around Solingen; locksmith tools in Velbeit; the English textile trade is centered in Lancashire; and English pottery in Staffordshire. This notion of leading industry centers, or growth poles, has particular relevance to the Maritimes, where resources are severely constrained.

The growth and competitiveness of Canadian firms, and resulting job creation and wealth generation, can be inhibited as much from government-imposed obstacles to growth as from their own managerial inadequacies. The issues already identified in this report which are of vital importance to the Maritimes — education and skills training, research and development, interprovincial trade barriers and financial resources — all form an interlocking set of reinforcing variables. They are reinforcing in the sense that they go together and form what might be called a "vicious" cycle of dependence around protectionism, government support, low productivity and financial weakness. At the other end is a "virtuous" cycle of growth.

Exhibit 6



The key role of governments in promoting competitiveness is two-fold:

a. To create an investment climate conducive to growth and private sector expansion; and
b. To foster aggressive policies to promote outward-looking trade expansion.

This role has nothing to do with ideology, government intervention traditionally defined, nor preferences for the private sector over the public sector or vice versa. It has everything to do with the new economic realities of the global economy. These realities stem from the shift of economic advantage to brainpower over manpower, to human resources over physical resources and to external adaptability over internal rigidities. The Maritime economy simply will not grow based on traditional approaches. The problems involve money, to be sure, but they have a great deal to do with attitudes, leadership and mobilizing scarce resources around bold but attainable objectives. Big firms are important, to be sure, but there is strong international evidence that real growth comes from a strong order of export-oriented small firms based on local entrepreneurs, flexible technologies and aggressive growth strategies, which produce high spillover effects for regional development.

The Maritime Premiers, and through them the Council, could take a number of new initiatives to promote bold challenges for the region. Economic issues — trade expansion, business start-ups, technology transfer, strategic alliances — could and should be the basis of new activity, but other issues such as health and basic education are also important and fundamental. Moreover, in these latter fields, more thought needs to be given to develop creative approaches to market Maritime skills. For example, when the number of students learning English in Asia can be measured in the millions, are there not opportunities to develop the skills and the resources available in the Maritimes, particularly in Japan (and Taiwan and Korea), especially where Maritime locations and institutions are relatively well known? Does the presence of more than 12,000 Japanese tourists to P.E.I. alone not open up new opportunities in this and several new areas of development? In the same vein, does it make sense to have all Maritime universities organize their school year from September to May when some of the finest faculty in the world may be attracted to the region to spend time teaching, doing research or participating in research consortia during the summer term when their own universities are on the conventional semester system. Are Maritime universities, research institutes and community colleges anywhere near the leading edge of participation and involvement with local businesses and high tech companies in research alliances, product development work or jointly-funded research projects of major benefit to the region?

Competitive governments mean outward-looking initiatives to promote the region's resources, export potential and problem-solving capabilities. These are not activities turned on and off at whim or by expediency. These activities must form part of the cycle of initiatives to build and reinforce strategies aimed at specific goals of export promotion, value-added production and growth.

A revitalized Council must bite the bullet on the hard choices facing the region's industrial structure. Three dramatic examples are proposed for the Council's new agenda, namely:

1. Removal of all interprovincial trade barriers in the region;

2. A Maritime Savings Development Fund; and

3. A trade promotion strategy to increase the level of exports from the Maritime region by 50 percent in five years.

The aim of this agenda is to make the Maritime region a "have" area of Canada by the year 2000.

Interprovincial Trade Barriers

In an era of U.S.-Canada free trade, Canadian provinces have been remarkably adept at turning a blind eye to the obvious and pervasive system of interprovincial barriers restricting interprovincial trade. Few Canadians realize the sheer pervasiveness of these interprovincial barriers let alone how many of these statutes, regulations and programs stand exactly counter to what most citizens feel they represent. Indeed in the past two decades, a whole body of statutes and regulations have appeared to remove entirely any responsibility on the part of the average citizen to take even the most elementary precautions based on the traditional rule of caveat emptor. The Economic Council of Canada has estimated that some 74 legal statutes exist at the provincial

level in the area of consumer protection alone. Across the board, some 1,608 regulatory statutes exist dating from 1979, from 112 in P.E.I. to over 200 in Ontario. In other words, size of economic jurisdiction does not explain the plethora of regulatory activity.

Policy makers, politicians, bureaucrats and businessmen all recognize the conceptual advantages of an open trading system. Equally, with labour and other interest groups, they recognize the difficulties in real life where the benefits of free trade are diffuse, extend over time and involve groups of consumers not necessarily party to the free trade structure. By contrast, opponents of free trade realize the costs, measured by adjustment impacts of free trade, which focus on specific groups and show up over a short time period.

Clearly, interprovincial trade barriers have a dominant influence on the underlying competitiveness of small economies like the Maritime Provinces. Protectionist attitudes narrow corporate executive horizons and diminish competitive instincts. The sheer thrust of provincial favouritism reduces the will and the incentives to expand markets. Lethargy sets in. Trade barriers affect all sorts of micro-corporate decisions, i.e. industry entry barriers, export behaviour, price behaviour, rates of return, investment intentions, relationships with unions and the like. In time, firms can turn to exporting options only with great difficulty.

In the Maritimes, there are twelve major trade barriers which parallel the larger impact of interprovincial barriers within the Canadian federation:

1. Government procurement contracts;
2. Wine, beer, liquor boards;
3. Highway construction tenders;
4. Product labelling, protection, safety programs;
5. Supply management boards;
6. Crown Corporation policies;
7. Professional credentials: law, medicine, engineering and certain labour policies (eg. oil and gas policies affecting Newfoundland and Nova Scotia);
8. Direct grants and subsidies to companies;
9. Provincial advertising contracts, including tourist promotion campaigns;
10. Provincially funded loan boards;
11. Provincial trucking regulations; and
12. Provincial incentive programs for industrial development.

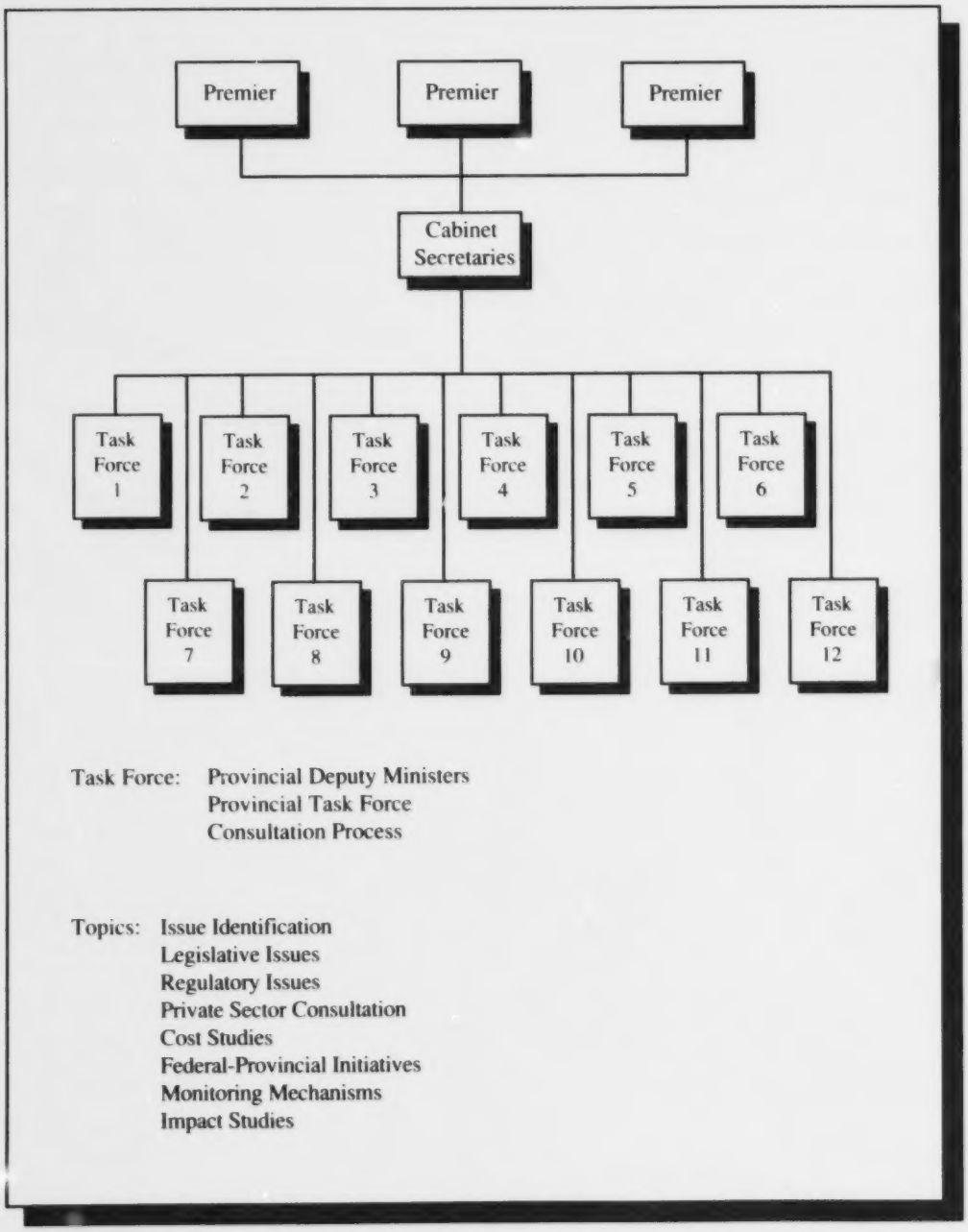
The collective and cumulative impact of interprovincial trade barriers must not be underestimated. Politicians and bureaucrats pay lip service to this impact but succumb to narrow and short-term considerations as required to justify their maintenance. Provincial nationalism remains an important override to provincial policies towards economic development. What are these impacts? What are the hidden consequences?

The most telling impact for the Maritimes is to make the region a high cost producer of goods and services. By reducing competition across and within the region, inefficiencies build up, incentives to expand, innovate and grow are reduced, and managers and workers are forced over time to look elsewhere for new opportunities or not to look at all. Prices to customers, including governments, are increased. The match between people and jobs is artificially lowered.

Those effects are expressed in terms of the economist. They are real no less because they are in economic terms. But for the Maritimers, the cumulative effect is structural. Small companies have less chance to become

big companies. Maritime companies based in one province have less of an opportunity to use their home market — their most familiar territory — to have their skills and use the learning advantages of growth to tackle new markets, whether in Central Canada, the U.S. or overseas.

Exhibit 7



Perhaps most of all, these barriers have the ultimate effect of keeping Maritimers down "on the farm", of being bit players in their own backyard, but without the incentive or the desire to pursue aggressive growth strategies in the tough overseas markets, especially in neighbouring New England.

Recently, the Maritime Premiers expressed a public commitment to lower interprovincial trade barriers within the Maritimes at their June 28 meeting held in Mont Carmel, P.E.I. How can this be done? What role does the Council play? What might be a specific action program?

Rhetoric is dominating talks on interprovincial trade barriers. Public skepticism is real. Bureaucrats are warm on the subject and cold on the potential for concrete results. The private sector is high on the possibilities for results and low on the political will to achieve them. From 1985, when a federal-provincial initiative started talks on such specific areas as procurement, liquor boards, standards, labour mobility and transportation, politicians of all stripes and levels have carried the banner of progress with next to zero concrete progress. What is obvious is the lack of three things:

- A concrete timetable;
- A workable structure for action; and
- An agenda.

The Maritime Premiers now have the opportunity to move on a workable agenda for the region.

The twelve interprovincial trade barriers cited above are the main impediments to expanded interprovincial trade and growth. A possible work plan might look like the diagram on the previous page.

Maritime Savings Development Fund

No analysis of Atlantic Canada economic development exposes so dramatically the central paradox of the region as an economic area less developed than the Canadian average: the region is a net exporter of capital to the rest of Canada. Citizens in Atlantic Canada are high net savers — high ownership of housing, high family savings, high levels of personal insurance and high possession of government securities. The Maritime region is the best example of what has been said about Canada at large: an advanced country's standard of living with a third world industrial structure.

The Maritime Provinces are well served by conventional financial institutions. This service is reflected in the range of branch banks, trust companies, local cooperatives, savings banks and even government-backed lending institutions. Yet a cursory analysis of financial requirements in the Maritimes reveals a notable feature, namely a cadre of well-funded, private sector companies — notably those such as Irvings and McCains of New Brunswick, the Sobey and Jodrey interests in Nova Scotia — with no obvious access restrictions in the financial markets and a wide range of small, developing, technology-rich entrepreneurial companies without recourse to long-term patient capital. Why is this the case? What is the underlying problem? What can be done to change the picture?

In theory, entrepreneurs in Atlantic Canada have a range of financial institutions to access equity capital. These sources include conventional lending, including commercial banks, but also government-supported institutions such as the Federal Business Development Bank and provincial grant agencies in each provincial government. Additional sources of financial support come from venture capital outlets, government loans, and individual savings.

Yet in all the analysis of entrepreneurial growth, what is absent is a clear assessment of the need for long-term equity capital, what is referred to in Asian capital markets as patient capital, with horizons of five to ten years, without obligations for levels of return equal to stock market rates of return in the short run.

In Canada, there is clear recognition of the central dilemmas of the high cost of capital. The fact that interest spreads between Canada and the U.S. have reached 4 percent, with Japan as high as 8-9 percent. At this level, the differential payback on an industrial project, comparing Canada and the U.S., is at least 50 percent higher. Long-term industrial development cannot sustain these differences in the cost of capital. Short-term payback requirements exacerbate the regional growth opportunities between Atlantic Canada, where transpor-

tation costs and the cost of capital are high relative to Central Canada. In the short term, governments in the Maritimes have no recourse to remedial steps other than through the federal government and the commercial banks, especially with provincial government debt in the region approaching some $20 billion dollars.
The equity issue facing the Maritimes is simple. What potential mechanisms exist to channel local savings into long-term equity capital to build a secure industrial base in the region? Should the conventional instruments of channeling Maritime savings and pension funds be directed towards traditional institutions? Are new initiatives needed?

Surveys by such groups as the Canadian Federation of Independent Business regularly cite the shortage of equity capital as the major problem facing small business. Similar findings have been reported by the Premier's Council in Ontario. More ominously in Ontario, where the industrial base is so much larger and the financial capital of Canada exists, the Premier's Council discovered a major paradox in the venture capital market. In Ontario, while the pool of venture capital in recent years has been increasing, the proportion of money actually going to new start-ups has been declining.

The Maritimes thus face the same problems as Ontario, and indeed all of Canada, but from a smaller industrial base. The ratio of start-ups to total firms is too low, and the success ratio in moving from small to medium-sized firms remains too low. (Of the 50 firms recently identified in a *Canadian Business* survey of the fastest growing companies, none came from Atlantic Canada — 28 were from Quebec.)

Two potential models could apply to Atlantic Canada. The first has been developed in Ontario, as a result of the initiatives in the Premier's Council Report, *Competing In the New Global Economy*. Based on similar models in Sweden and to some degree France, the Ontario Technology Fund is a one billion dollar risk sharing fund aimed at the needs of successful, but well established exporting companies based in Ontario. The Ontario model is basically a supplement to private sector sources of capital in Ontario, with specific emphasis on new product development and local research and development for smaller Ontario firms (although multinationals are not excluded).

A second approach is that used in Quebec, the home of the new entrepreneurial revolution. In Quebec, there are really three major instruments to promote entrepreneurship in the province, namely the Quebec Business Development Agency — La Société de Developpement Industriel du Quebec (SDI); the Quebec Stock Savings Plan; and the Caisse de Dépôt et Placement, the province's investment vehicle for Quebec Pension Funds.

There can be no simplistic transfer of one model of development from one jurisdiction to another without careful study and modification. Yet a bold approach to an indigenous development strategy in the Maritimes cannot overlook the fundamental needs of channelling pools of savings into equity capital and business start-ups. Most of Maritime industry is not achieving the growth rates experienced in other parts of Canada; paradoxically, nor are Maritime savers and pension plans. Restrictive federal pension fund regulations force Canadians to accept lower rates of return by imposing ceilings on the level of funds invested outside Canada, despite the demonstrable differences in returns and the benefits which accrue mostly to Toronto-based firms.

Pension funds in the public sector alone amount to some $10 billion in the three Maritime Provinces. Most of this money is channelled into blue chip securities and government treasury bills. How can this enormous pool of savings be turned into a vehicle to help local economic development? The Premiers and the Council should conduct a major study to investigate options and proposals to address this central issue.

Table 9

COMPARATIVE RATES OF STOCK MARKET RETURNS

	5-Year Return	10-Year Return
Canada	10.04	11.55
USA	13.00	11.88
EAFE Index	35.80	23.90

External Relations

Consider four potential areas of external relations of particular concern to the Maritimes and where a concentrated effort could produce long-term benefits for the region.

- **Quebec**

The historic association between the Maritimes and Quebec date to the very history of Canada and go much beyond the role of Quebec as the land bridge linking the region with the industrial heartland of Ontario. Quebec and the Maritimes share many common problems and public policy challenges. Some are obvious, such as language issues, small town community development, rural health care, skills training and tourism. They also share major challenges on some very big issues, such as national transportation issues in such areas as highways, railway abandonment and passenger rail; energy policy, including co-generation facilities, electricity distribution, alternative energy technology, energy conservation and export policy; and environmental issues, heritage and conservation, waste management and U.S. bilateral relations, including acid rain.

Few opportunities currently exist for direct discussions between Quebec and the Maritimes as a region, except on province-to-province talks. Yet the potential common policy areas are enormous, especially when one views the eastern region of Quebec, its particular challenges and location away from large markets and the similarity with many areas of the Maritimes. A forward-looking external work plan for the Council would develop a policy agenda with the Province of Quebec and a set of mechanisms, either at the department level, a Task Force of officials or a meeting of Premiers, to consider specific initiatives.

- **New England**

New England is the natural export market of Atlantic Canada by size, geography, the historical flow of Maritimers to the New England states and, more recently, investment and tourist flows. Yet New England is an extremely competitive market. It is a high technology centre, second to few areas of the world, including high tech California and Japan. It is an internationally renowned tourist centre, acclaimed for its wilderness, beaches and waterfront, its food, folklore and rural beauty, panoramic scenery and urban attractions. New England is an education superpower, with the state of Massachusetts possessing as many institutions of higher learning as all of Canada. Nor is New England larger. The four Atlantic Provinces have a land mass three times the six New England states combined. Canada's smallest province, P.E.I., has a land mass twice the size of the smallest U.S. state, Rhode Island. Vermont has a population smaller than New Brunswick. Moreover, the states in New England work closely together, not only on specific economic development issues but in their dealings with Washington. The States have institutionalized their cooperation by such specific bodies as the New England Council.

New England has been an area of relative neglect by the Maritimes — by government, academe and the private sector. While personal contacts are many, institutional contacts are relatively limited and unfocussed. Both federal and provincial tourist promotion is the biggest single area of concentration. Specific initiatives to build wealth-creating initiatives across a wide front are limited and piecemeal. What the Maritime Provinces need is a strategy — sector by sector, region by region and based on measurable targets. New England has many options, southward into the booming sunbelt, westward into the U.S. heartland, and overseas. The Maritimes does not have such ready options to such a large, rich and vibrant market so close to home.

The Council has made sporadic attempts at better institutional links, and of course, it houses the Secretariat for the annual meeting of New England Governors and the Eastern Canadian Premiers. The Maritime Provinces need specific action plans, including offices in the region and mechanisms to develop industrial, academic and research linkages. The Maritime Premiers need to use the Canadian Consulate in Boston most strategically to establish a wider range of contacts, build a database of opportunities and focus on workable cost-effective initiatives.

- **Scandinavia**

Much has been made of Europe 1992, the creation of a single common market among the twelve countries in the European Economic Community. Recent changes in Eastern Europe have added to the potential drama of a new 21st century Europe and the emergence of a major trade block equal to the GNP of North America and much larger than that of Japan.

The EEC has major implications, not only for Canada but also for the Maritimes. Europeans are major investors in the Maritimes. Consider Sweden's Stora and France's Michelin, to cite two examples. The Europeans are a Canadian export market for fish, pulp and paper, minerals and agricultural produce and host overseas investment for such firms as McCains. The Europeans are increasingly exporters of technology and capital for industries in the Maritimes as diverse as shipbuilding technology, seaweed and agriculture.

Yet the Maritimes have had no institutional basis or instruments to plan or even study the impact of EEC 1992 on the region or to consider potential opportunities for trade development or new strategic alliances. The Province of Nova Scotia has an Agent-General in London, and various Maritime companies have linkages to firms in Europe, but the approach is again piecemeal and ad hoc.

Consider the specific area of Scandinavia. The countries — Norway, Sweden, Finland and Denmark — are similar in industrial structure and resource sectors — fishing, agriculture, pulp and paper, mining, shipbuilding and energy — and they are regional or peripheral economies which need large, continental markets. Yet each has managed to devise policies towards value-added production, export promotion and technology development whose application could have many common features to the Maritime region.

Indeed, in some specific areas — mining machinery, marine technology, advanced paper, furniture design and the like — Scandinavian technology far exceeds current Maritime developments, despite few dramatic local impediments. The real question is why? What can the Maritimes learn? What opportunities are there for new alliances, for the Maritimes to gain access to Europe and even the Soviet market and for the Scandinavians to gain entry into Canada and the larger North American economic base?

- **Japan / Pacific Rim**

The general outline of Japan's new strengths in finance, technology, tourism and services is generally recognized, although the implications of the growth of Japan and the Pacific Rim for the Maritimes is not well understood. Already, Japan is pro-active in the region in power generation equipment, fish exports, tourism, financial lending and a host of manufacturing goods.

The Japanese are building an "Anne of Green Gables" theme park in Hokkaido, the northern island, at an approximate cost of $50 million. Some 12,000 Japanese tourists visit P.E.I. every year. What is ironic is that few visit P.E.I. for what Maritimers perceive as an Island strength — beaches and sun. The Maritime

Provinces have no game plan, not only to build and develop this tourist link, but to augment it into other areas such as industrial investment, education linkages or technology spinoffs.

The Maritimes — governments, companies and individuals — have not only much to learn but much to gain. But the gains will only come with effort; that is, with sustained visits to the area, with alliances with companies and research institutes, with twinning of cities and with two-way financial deals.

What is true of Japan today is equally true of the remainder of the Pacific Rim, especially Hong Kong, where the Council has started some very useful work. The area is too large and too important to ignore and too directly involved in the Maritime economy not to be understood. The Council should be a catalyst to deal with these opportunities, based on a pro-active strategy directed by the Premiers.

VI An Atlantic Council of Premiers: A Digression

Any analysis of the potential instruments and institutions for the Maritime Provinces can hardly ignore a discussion of the role of the Province of Newfoundland and Labrador in the region's affairs. Geography obviously is paramount but so is economic similarity on such issues as regional development, sector issues like fisheries and energy, and strategic policy issues like health care, education, changing demographics, one-industry community economics and education. So too is a declining influence in federal affairs, exemplified by the number of Atlantic seats in Parliament (32 of 282 versus 32 of 295), and the continued decline in fiscal control over the region's public finances.

Historically, the Province of Newfoundland has not seen itself closely linked to the Maritime Provinces. Historic ties to Britain, the United States from the Second World War and even to mainland Canada have not placed a priority on linkages in the public administration area with the Maritime Provinces. The continued distinction between the *Maritime* Provinces and the *Atlantic* Provinces only reinforces the basic point. Yet obvious and superficially appealing linkages with the Maritimes do exist. In the area of policy alone, some key issues in no fixed order:

- ACOA
- EPF - Established Program Financing
- Offshore energy development
- Higher education
- Fisheries
- Overseas investment promotion
- International tourism development
- Health care allocations and technology
- Medical education
- Economic diversification

Any forward-looking discussion of the Council of Maritime Premiers must take into account the potential for future cooperation with Newfoundland and Labrador. Indeed, recent participation of Premier Clyde Wells at the fall 1989 meeting of the Council of Maritime Premiers in New Brunswick adds a sense of urgency to the question of the potential role of Newfoundland and Labrador in the Council's future deliberations on a more permanent basis.

The rationale for closer links appears obvious. The four Atlantic Provinces share many similarities and common problems, especially in the economic field — a weak industrial base, a dependence on a few resource sectors, severe fiscal pressures, high unemployment and high dependency ratios. Yet these obvious common characteristics could equally describe similarities between the Maritime Provinces and portions of Eastern Quebec, Northern Ontario or parts of New England in the U.S.A. Indeed R.C. Harris and J. Warkentin note, in their work *Canada Before Confederation: A Study in Historical Geography*, the Atlantic Provinces are not really a homogeneous grouping at all with identical features:

> *This is a very complex region. It has no unifying configuration of physical features, and even the surrounding sea provides a matrix rather than a focus. There is no centralization of economic activity or function, no rich heartland. If there is any unity, it is a unity of mutual problems arising from the attempt to wrest from modest resources a standard of living roughly equivalent to that of the rest of Canada and the United States.*

In many respects the differences between Newfoundland and Labrador on the one hand, and the Maritime Provinces, are stark. Economically, some sectors are viewed by many observers in Atlantic Canada to be competitive, e.g. offshore energy development in Newfoundland and Nova Scotia and related services, including centres of expertise for energy policy, as well as centres for transportation, fleet services and repairs and the like. In the area of public administration, there has been little evidence in recent history of close coopera-

tion and coordination in such fields as health care, education, transportation, training and a host of other policy areas similar to that in existence among the Maritime Provinces. Indeed, in a variety of ways, big and small, the Province of Newfoundland and Labrador has historically and quite deliberately put distance to the sense of close coordination and cooperation among all four provinces of Atlantic Canada, certainly compared to the expressed vision and actual performance of the Maritime Provinces.

A closer integration of the Maritime Provinces and Newfoundland and Labrador certainly has many intuitive appeals. It would add voice and weight on many national policy issues, economic, social, constitutional and cultural and on many platforms, national, local and even international. A more coordinated approach would greatly improve the human and financial resources devoted to major policy issues and to policy analysis generally, including those of relevance in federal-provincial councils. A common regional position on a variety of topics would bring economies of scale to the policy development process and a larger vision to the specific interest groups in each province.

How might a revamped Council of Atlantic Premiers actually work? Three potential models might apply — a liaison model, a decentralized model and an integration model.

- **A Liaison Model**

Under this form, Newfoundland and Labrador would adopt a liaison approach to the Council of Maritime Premiers, participating fully in policy deliberations, new joint undertakings of a regional nature and possible direct involvement in particular agencies of the Council, such as the Maritime Municipal Training and Development Board. In effect, Newfoundland and Labrador would be a partner in the Council's deliberations but not a full participant in all, or indeed, any of the Council's agencies.

Keep in mind that funding for the Council's agencies is not uniform. The Maritime Provinces Education Foundation is funded, for instance, on a 50-50 cost shared basis between the Council and the provincial departments of education. For the agencies funded by the three governments on a per capita formula — the Maritime Municipal Training and Development Board, administrative costs of MPHEC and the Council Secretariat — a per capita formula might be devised for Newfoundland and Labrador to pay a combination per capita levy, a start-up participation rate and a fee based on the agencies where participation is agreed.

Table 10

PER CAPITA FUNDING LEVY

Province	Population	Percentage Old	Percentage New
Nova Scotia	875,000	50.90	38.15
New Brunswick	715,000	41.80	31.18
P.E.I.	128,000	7.30	5.58
Newfoundland	575,000	--	25.06

In this approach, the onus is clearly on Newfoundland and Labrador to take the initiative in the Council's activities and the degree to which that province wants to belong. Newfoundland is, in effect, joining an on-going institution and must decide the degree of potential involvement, the actual terms and the potential to shape the Council given its own provincial priorities.

- **Decentralization Model**

This model assumes a Council organized around regular meetings of the four Atlantic Premiers, based on the premise of four equally "sovereign" governments acting for common purposes. The agenda for such meetings would be relatively ad hoc. There would be a low degree of integration of intergovernmental staff and central agency work. In the extreme case, there would no longer be a Council Secretariat, with obvious budget implications for each government.

In some respects, there are similarities with this decentralization approach and that used by the annual meetings of the New England Governors and the Eastern Canadian Premiers. Agendas for such meetings are relatively ad hoc. There is a rotation system for the hosting of such conferences, and the policy issues discussed are of a very general nature. No individual jurisdiction or subgrouping holds any primacy over the other. Control coordination is relatively weak.

Perhaps a more specific Canadian example which approximates the decentralist approach is the annual meeting of Western Premiers. In this case, the agenda setting is somewhat more structured, especially around such economic issues as international trade, taxation and industrial development. Provincial civil servants work out the details of the annual communiques, as well as the agenda setting prior to the actual meetings.

- **Integration Model**

The third approach to Newfoundland and Labrador's participation in the Council is as an unambiguous, full and equal participant in the Council, presumably reconstituted as a Council of Atlantic Premiers. The philosophy of the Council would remain in the future as expressed in the past, most notably in the First Annual Report of the Council by Premiers Hatfield, Regan and Campbell:

". . . the Council of Maritime Premiers, the first agency of its kind in Canada by which three provinces seek systematically to identify and exploit opportunities for maximizing the benefits of government services through joint action . . . "

Operationally this model would be relatively easy to implement. Budgets would be allocated on a per capita basis, and the proposed Advisory Board and the Secretariat could be modified to include the fourth partner province.

Assessment

Of the three models set out here, the least attractive approach is the decentralization model. The potential for meaningful initiatives coming from such an approach remains questionable, and the dynamic existing among Maritime governments would be broken. How existing institutions and agencies would be handled is problematic. In more concrete terms, the Maritime governments would be giving up a great deal in return for yet another forum to discuss vague policy issues. This study strongly endorses the integration model as the only realistic alternative. Newfoundland and Labrador would be a full partner in the Council and the funding of the Secretariat on an agreed per capita basis. The precise involvement in the Council's agencies is subject to study by Newfoundland and Labrador, but that in no way changes the potential for active participation in the Council's policy development process and the larger focus on industrial development for the region.

VII Implementation: Atlantic 2000

"Canada has an additional problem of making a major change in its economy from resource dependence to knowledge intensive processes, with a clear emphasis on tradeable goods and services in order to function as a fully engaged global competitor."

- The Halifax Declaration

The premise of this report can be stated boldly: the Maritime Premiers must place unprecedented emphasis on regional cooperation to advance wealth creation and economic growth in Atlantic Canada. The Council of Maritime Premiers must be a vehicle to:

- Advance bold policy initiatives;
- Deliver sophisticated, well thought out policy advice; and
- Focus on specific strategic issues which make a difference to wealth-generating capacities.

A bold vision of the Maritime Premiers cannot happen by executive fiat. Maritimers, for all their faults, believe in public participation, community involvement and local action. They want to be involved. Any bold vision to develop the Maritime region will not take root by bureaucratic plans, executive orders, legislative initiatives or political action on their own. The ideas and drive must come from an acceptance of a new approach and a momentum from citizen's action groups. Public policy can create a framework; public initiatives can reinforce the sense of direction and concrete proposals. But political rhetoric cannot bring about real change. Citizens must be involved.

Any acceptance of a new vision for Maritime Canada must start from this premise. Citizens and communities alike must not only be involved, but they must buy into the ideas and rationale behind them. It is good politics to involve the public. An implementation plan for the revitalized Council must start from this premise.

A strategic approach to the Council's deliberations would focus the attention on the political and bureaucratic work on the big issues. The emphasis would be on specific attainable targets over a fixed time period — say five years. What might this approach mean? Assume the overall target is straight forward — to make the Maritimes a "have" region by the end of the decade, by the start of the 21st century.

Specific means to achieve this might encompass the following objectives:

1. *Double the level of entrepreneurial exports from the Maritimes in five years:*

   - Increase the level of exporting firms in each province each year in each major sector;
   - Improve the value-added level of firms each year; and
   - Diversify exports from the Maritimes to new markets each year for five years.

2. *Double the level of start-ups in each province:*

   - Increase the number of overall start-ups;
   - Double the level of women entrepreneurial start-ups; and
   - Increase the growth rates of new businesses each year for five years.

3. *Develop the technology base of the Maritimes over five years:*

   - Increase public sector R & D funding to reach 1.7 percent of GDP in each province over five years;

   - Increase R & D base of private sector companies through firm level and joint funding initiatives, including regionally-based centers of excellence involving educational institutions and the private sector; and

   - Tie all government support for industry to technological development and increased technology export capacity.

The argument of this report is that the Maritime Premiers can no longer take the sources of continued economic growth for granted. Structural issues are profoundly changing the wealth-creating mechanisms in the new information economy. Competitiveness means competitive governments as well as competitive private sectors. It has nothing to do, per se, with political beliefs nor the intrinsic merits, per se, of big or small firms. It has everything to do with mobilizing scarce resources — talent, brains, thinking, networks, information, entrepreneurial managers — into coordinated actions to achieve realistic objectives.

Government activity in Atlantic Canada cannot be divorced from citizen involvement. Recent history illustrates quite vividly what happens when governments, pushed by planners and social activists, get ahead of the people. No amount of political rhetoric can disguise the beliefs that individual citizens feel about specific issues. An implementation plan for a new, revitalized Council of Maritime Premiers must start at the top with the Premiers, but it must develop a flow from the activities and the interests of the people in local communities, the legislatures, the media, the private sector groups, the community colleges and the academic community.

A bold implementation plan might consider the following elements of what could become an Atlantic 2000 strategy:

1. A press conference early in 1990 involving the Premiers in a specific action plan and a statement of the challenges facing the region;

2. Convening a special assembly of the three Maritime legislatures in mid-1990 for a one-day session on the future of the region;

3. A master challenge document to the Atlantic media and the public on a series of specific challenges facing the Maritimes to be prepared by the Council;

4. A mobilization of the educational and academic establishment to accept the new Atlantic Challenge, starting with the Maritime Provinces Higher Education Commission;

5. A series of local, community-based initiatives to debate and discuss the Atlantic Challenge concept;

6. A cooperative planning process involving the four provincial Science and Technology Advisory Boards to establish a series of priority initiatives, such as regional centers of excellence, to build the technological infrastructure of the region; and

7. An invitation to the federal government, through the Prime Minister, to participate in Atlantic 2000 initiatives, with the central involvement of ACOA in cooperative efforts.

Appendix

Major Recommendations:

"Standing Up to the Future: An Organizational Assessment of the Council of Maritime Premiers"

(The bracketed numbers indicate the page on which the recommendations are found).

1. "This study strongly recommends an invigorated Council, one more focussed on industrial development for the region based on leadership stemming directly from the Premiers and a revitalized economic agenda." (Page 3 - Introduction)

2. "The issue for the future of the Council of Maritime Premiers is not regional coordination versus provincial autonomy, as historically stressed, but strategic coordination of policy versus program delivery, with the provincial governments working together being the vehicle for the latter... The Council should be the vehicle for the former; the provincial governments the vehicle for the latter." (Page 7 - Council of Maritime Premiers: Organization Assessment)

3. "The Steering Committee should have two work agendas set. In the first case, the emphasis should be on a limited range of strategic topics, where issues have major salience for the Premiers. The second set of agenda items are operational questions of particular relevance to line ministries or items which are of a firefighting mode." (Page 11 - Steering Committee)

4. "Strategic issues should be treated quite separately and, in fact, should be the product of initiatives flowing directly from the meetings of the Advisory Board or the Premiers themselves." (Page 11 - Steering Committee)

5. "Membership on the Steering Committee should be reconstituted. Each Premier should appoint two members:

- A deputy minister who is in the highest position in each province
- The most senior member of the Premier's political staff
- The Chairman of the Premier's Advisory Board should also be a member."

(Page 11 - Steering Committee)

6. "The Steering Committee should meet as often as necessary, but probably no more than four times a year." (Page 11 - Steering Committee)

7. "The Steering Committee should keep operational firefighting issues out of the deliberations of the Premiers and should delegate these issues to the respective deputies in each province for resolution." (Page 12 - Steering Committee)

8. "A refocussed Council Secretariat should concentrate on a limited range of policy topics, mandated to it by the Premiers directly or initiated by the Secretariat but approved initially by the Steering Committee. The Secretariat should be able to maximize its credibility and policy expertise on particular issues by involvement of personnel on Task Forces or studies from within and outside government depending on circumstances." (Page 12 - Secretariat)

9. "In personnel terms, the Secretariat should be a recognized vehicle of importance in career terms by each provincial government. Recruitment of especially qualified personnel on short assignments would be a powerful signal by the Premiers of the importance placed on the Secretariat's work." (Page 12 - Secretariat)

10. "Examples of potential areas of policy study for the Secretariat include:

- Federal procurement policies;
- Impact of Europe 1992 on the Maritimes;
- International tourism promotion;
- Long-term science and technology; and
- The competitiveness of agribusiness in the Maritimes."

(Page 13 - Secretariat)

11. "Establishment of a Maritime Premiers Advisory Board on a three-year trial basis - membership approximately 15; agreed list of nominees by the Premiers acting in concert; bias towards industry or international activities; Maritimers living outside Canada or the Maritimes prime candidates." (Page 13 - Maritime Premiers Advisory Board)

12. "The primary role of the Board (to meet 2 - 3 times/year):

- To help the Premiers establish a collective strategic agenda for the Maritime region, particularly in the area of industrial development; and

- To serve as a sounding board for strategic policy initiatives prepared by the Council.

The Board would emphatically stay away from the day-to-day work of the Council." (Page 13 - Maritime Premiers Advisory Board)

13. "Maritime Premiers Advisory Board to develop strategic, long-term and primarily economic agenda initiatives. It would delegate policy analysis, working papers, data gathering and the like to the Council Secretariat. In some circumstances, it might ask for work from outside bodies." (Page 13 - Maritime Premiers Advisory Board)

14. "Premiers should undertake to initiate the Advisory Board forthwith, with the initial meeting planned for the Spring of 1990." (Page13 - Maritime Premiers Advisory Board)

15. The CMP should be reorganized and refocussed. (Page 15 - Strategic Options for the Council)

16. "An invigorated Council should be a vehicle to refocus the region's potential in the new international environment. The thrust should be pro-active and outward. New approaches are needed. The Premiers must take the lead." (Page 17 - Strategic Options for the Council)

17. "The Premiers could signal a personal commitment to the Council's new agenda by a new system of rotation where each Premier would serve as Council Chairman for six months each year and would press particular initiatives forward." (Page 17 - Strategic Options for the Council)

18. "The principal concern for both public and private sector policy makers in Atlantic Canada should be and must be to improve the macroeconomic performance of the region, i.e. wealth creation, productivity, output and employment." (Page 21 - The Challenge of Regional Development Policy)

19. "An effective Council Secretariat should develop a "state-of-the-art" data bank for use by the Advisory Board and the Premiers in such vital areas as federal expenditure patterns, provincial and regional health care costs, procurement by federal government agencies, Crown Corporations and agencies, appointments on federal boards, agencies and commissions, trade data in overseas markets, particularly those cited in this study, data on experts in service technology and overseas investments, province by province and sector by sector." (Page 26 - Policy Analysis and Data Banks)

20. "Regional centres of excellence (re: science and technology) would help." (Page 27 - Policy Analysis & Data Banks)

21. "Funding of research programs requiring cooperation between business and universities would add to the incentives for better focus and industrial payoff." (Page 27 - Policy Analysis and Data Banks)

22. "More cooperative ventures among the provincial science and technology advisory boards would add to the infrastructure of advice-giving." (Page 27 - Policy Analysis and Data Banks)

23. "More attention to science-based innovation would raise the awareness level of new approaches to economic growth." (Page 27 - Policy Analysis and Data Banks)

24. "The preferred method (of five) is for the Council and the Steering Committee to build a research agenda, possibly using Secretariat staff for the coordination role but engaging external researchers based on strategic issues identified by the Steering Committee and the Council." (Page 28 - Policy Analysis and Data Banks)

25. "The Maritime Premiers, and through them the Council, could take a number of new initiatives to promote bold challenges for the region. Economic issues—trade expansion, business start-ups, technology transfer, strategic alliances—could and should be the basis of new activity, but other issues such as health and basic education are also important and fundamental." (Page 30 - A Vision Option: A Competitive Maritime Canada)

26. "More thought needs to be given to develop creative approaches to market Maritime skills." (Page 30 - A Vision Option: A Competitive Maritime Canada)

27. "Three dramatic examples are proposed for the Council's new agenda:

1. Removal of all interprovincial trade barriers in the region, including:

   - Government procurement contracts;
   - Wine, beer, liquor boards;
   - Highway construction tenders;
   - Product labelling, protection, safety programs;
   - Supply management boards;
   - Crown Corporation policies;
   - Professional credentials: law, medicine, engineering and certain labour policies (e.g. oil and gas policies affecting Newfoundland and Nova Scotia);
   - Direct grant subsidies to companies
   - Provincial advertising contracts, including tourist promotion campaigns;
   - Provincially funded loan boards;
   - Provincial trucking regulations; and
   - Provincial incentive programs for industrial development.

   Necessary to develop:

   - A concrete timetable;
   - A workable structure for action; and
   - An agenda.

2. A Maritime Savings Development Fund; and

3. A trade promotion strategy to increase the level of exports from the Maritime region by 50 percent in five years."

(Page 30-37 - A Vision Option: A Competitive Maritime Canada)

28. "What is absent is a clear assessment of the need for long-term equity capital, with horizons of five to ten years, without obligations for levels of return equal to stock market rates of return in the short run." (Page 33 - Maritime Savings Development Fund)

29. "The Premiers and the Council should conduct a major study to investigate options and proposals to address this central issue of turning the enormous pool of savings by Maritimers into a vehicle to help local economic development." (Page 34 - Maritime Savings Development Fund)

30. "A forward-looking external work plan for the Council would develop a policy agenda with the Province of Quebec and a set of mechanisms, either at the department level, a task force or a meeting of Premiers, to consider specific initiatives." (Page 35 - External Relations)

31. "The Maritime Provinces need specific action plans, including offices in the region and mechanisms to develop industrial, academic and research linkages. The Maritime Premiers need to use the Canadian Consulate in Boston most strategically to establish a wider range of contacts, build a database of opportunities and focus on workable cost-effective initiatives." (Page 36 - External Relations)

32. What can the Maritimes learn from Scandinavian experience in thriving on a global scale? What opportunities are there for new alliances with them to mutual advantage? (Page 36 - External Relations)

33. "The Council should be a catalyst to deal with these opportunities, based on a pro-active strategy directed by the Premiers." (Page 37 - External Relations)

34. "This study strongly endorses the integration model as the only realistic alternative. Newfoundland and Labrador would be a full partner in the Council and the funding of the Secretariat on an agreed per capita basis." (Page 40 - An Atlantic Council of Premiers: A Digression)

35. "A bold vision of the Maritime Premiers cannot happen by executive fiat. Citizens must be involved. An implementation plan for the revitalized Council must start from this premise." (Page 41 - Implementation)

36. "The emphasis would be on specific attainable targets over a fixed time period—say five years. Assume the overall target is straight forward—to make the Maritimes a "have" region by the end of the decade, by the start of the 21st century. Specific means to achieve this might encompass the following objectives:

- Double the level of entrepreneurial exports from the Maritimes in five years:
- Double the level of start-ups in each province:
- Develop the technology base of the Maritimes over five years."

(Pages 41 - Implementation)

37. "A bold implementation plan might consider the following elements of what could become an Atlantic 2000 strategy:

1. A press conference early in 1990 involving the Premiers in a specific action plan and a statement of the challenges facing the region;

2. Convening a special assembly of the three Maritime legislatures in mid-1990 for a one-day session on the future of the region;

3. A master challenge document to the Atlantic media and the public on a series of specific challenges facing the Maritimes to be prepared by the Council;

4. A mobilization of the educational and academic establishment to accept the new Atlantic Challenge, starting with the Council of Maritime Provinces Higher Education Commission;

5. A series of local, community-based initiatives to debate and discuss the Atlantic Challenge concept;

6. A cooperative planning process involving the four provincial Science and Technology Advisory Boards to establish a series of priority initiatives, such as regional centers of excellence, to build the technological infrastructure of the region; and

7. An invitation to the federal government, through the Prime Minister, to participate in Atlantic 2000 initiatives, with the central involvement of ACOA in cooperative efforts."

(Page 42 - Implementation)